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The Wrong War?

The Case Against a National Energy Policy
David A. Stockman

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The New Sectionalism:
I. Metropolis Without Growth — *William Alonso*

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FALL BOOKS: A SPECIAL SUPPLEMENT

Reviews by Clifford Orwin, James W. Ceaser, Tom Bethell, Leslie Lenkowsky, Martha Bayles, Walter E. Williams, William J. Bennett, Alan Reynolds, James Ring Adams, and John Bishop

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The wrong war? The case against a national energy policy

DAVID A. STOCKMAN

WHEN President Carter declared the energy crisis so serious for the future political, economic and security interests of the nation that it required a response amounting to the "moral equivalent of war," his call to arms was met with nearly universal acclaim. To be sure, there was much disagreement about the tactics of battle. But the twin tenets of Carter's declaration—that the world was running out of energy and that the U.S. faced grave peril unless it cured its "energy alcoholism" and consequent dependence upon imported oil—became axiomatic in all subsequent debate.

New York Times columnist Anthony Lewis echoed the first tenet when he called upon the American public "to face the central truth: The world cannot for much longer produce enough oil to meet escalating demand. In the years ahead there is no way out but strong conservation measures. Americans will surely accept them if Jimmy Carter can persuade them to open their eyes to the facts."

The Washington Post reiterated the second tenet while endorsing the Carter program as an essential "national energy insurance policy." "Depending upon 9 million barrels a day of other peoples' oil is hazardous to your health," the *Post* warned. "If Mr. Carter and the Congress put through all these severe and unwelcome measures,

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maybe the country can avoid the dire possibilities of embargo and extortionate pricing."

One year later, the grand civilian mobilization proposed by the Carter Administration to surmount this energy peril has not even been launched. Congress has refused to approve even one of the heavy artillery pieces requested by the Administration—the crude oil equalization tax, a 50 cent tax on gasoline, industrial oil and gas consumption taxes, and a stiff forced-draft coal conversion program. Those minor actions which have been approved are little more than a discordant goulash, representing virtually no policy momentum whatsoever.

In terms of the stated central objective of the Carter National Energy Plan (NEP)—reduction of oil imports—the energy laws already "on the books" are largely self-cancelling. The gains from the auto-fuel-economy standards, for example, are more than offset by domestic-production shortfalls due to rigid oil and gas price controls. Those elements of the NEP which may eventually be implemented are too weak or too late to have a significant effect on petroleum consumption. Homeowners haven't waited for insulation tax credits or Federally mandated residential-energy "audits" to insulate their homes. Although the cumbersome appliance-efficiency standards and utility-rate-reform programs may eventually reduce nuclear and coal-fired electricity demand, they will "save" scarcely a drop of oil. Even the final, heavily diluted version of the mandatory coal conversion program will result in only an infinitesimal increase in industrial coal use as a substitute for oil and gas above what the marketplace would have induced without regulatory prodding.

In short, the nation no longer finds inspiration in the bold promises of a new administration ready to move toward a solution of the energy problem. The sense of anticipation that characterized the Spring of 1977 has turned sour. The political debate has increasingly degenerated into a petty and unseemly squabble over marginalia. Public opinion is growing skeptical and uninterested; the political fortunes of the Carter Administration have been wounded, perhaps fatally; and, Congress has become a veritable cauldron of disarray, jurisdictional jousting, personal antagonism, and confused opinion. Under these circumstances, it can be predicted with a fair amount of confidence that nothing decisive regarding the alleged energy peril will evolve before the next Presidential election. The endlessly repeated calls for a "national energy policy" will remain unanswered.

The prospect of this continued hiatus on the energy issue will undoubtedly give rise to a chorus of national self-flagellation and

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blame-ascribing. But regardless of where the finger of fault is pointed, the problem will be identified as a *political failure*. Some will point to the weak, inconstant, amateurish performance of the Administration and yearn for the tough, decisive, visionary leadership that crisis purportedly demands. Others will point to Congress' slavish devotion to parochial interests and cowardly unwillingness to inconvenience or arouse the electorate. The moralists will blame the short-sighted hedonism of the American people, and those of a more conspiratorial mind will point to the machinations of the oil industry and other powerful economic groups.

But before resigning ourselves to this impending fit of national bad temper, it might be worthwhile to consider another perspective —a radical one, to be sure. What we are experiencing just now may not be a political failure at all, but rather a *remarkable political success*. Despite heavy odds, the political system has not been panicked by momentary energy jingoism. We have declined to launch what would have become a disastrous, inextricable engagement in an unnecessary war. It may be that the true political task before us is not a renewed effort to mobilize our national resources for battle against energy shortages, oil imports, and related perils, but to confirm the implicit judgment of the electorate and mothball the motley energy army—such as it is—that we have erroneously called to arms.

Chicken Little's logic

The argument for a comprehensive national energy policy—a policy of extensive Federal management and intervention in all phases of the energy market—is reminiscent of Chicken Little's defective logic. From the undisputed empirical fact that he was struck on the head by a falling object, he jumped to a number of wholly unwarranted conclusions: that the offending object—a common ear of corn—was of non-terrestrial origin; that it had fallen from the sky and not a corn stalk; and that the incident was the prelude to an extraordinary universal catastrophe, when it was in fact an isolated, mundane event that might well have been anticipated by any sensible chicken strolling through a cornfield in October.

The case for a government-orchestrated national energy policy has been proceeding on the basis of unwarranted conclusions since October 1973. The one empirical fact of relevance at that time was that the U.S. itself could no longer produce sufficient gas and oil to meet domestic consumption needs at either the pre- or post-embargo price. Even the most optimistic deregulators have never

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argued otherwise. But that is about as far as the evidence goes. The remaining arguments for a national energy policy consist largely of an accumulation of superficial conclusions, questionable interpretations and unwarranted inferences. Together they amount to a strategy of drastic U.S. withdrawal from the global energy marketplace—to autarky for a major sector of the free world's largest economy. But since the marketplace inherently resists artificial segmentation, the burden of compensatory policy action is enormous. To establish and maintain an internal energy regime insulated from the forces of the global marketplace requires an ever-proliferating network of controls, subsidies, and bureaucratic management schemes.

Accomplishing this rather formidable task of insulation has been the central task of energy policy since the embargo. The results have not been encouraging. The naive goal of total "energy independence" by 1980 proposed by the Nixon-Ford Administrations in the immediate aftermath of the embargo was revealed to be a costly, unrealistic illusion even before implementation plans could be formulated. But, in only slightly more muffled tones, the quest continues. The latest effort, the Carter Administration's National Energy Plan, is little more than a policy-induced oil-import-displacement scheme. Indeed, Administration spokesmen took great pains to specify the precise volume of oil imports that each of their 110 assorted policy measures would displace. Since most of these oil import demand-suppression measures (energy consumption taxes and mandatory conservation) have been rejected by the Congress, the Administration is now formulating a "Phase II" supply-oriented displacement strategy. But these schemes to subsidize the accelerated commercialization of synthetic fuels and other alternate energy forms are likely to become embroiled in even more political controversy than Phase I. Which is the best bet—fluidized bed combustion, coal liquification, shale retorting, gasohol plants, or solar technology?

The national energy policy enterprise is going nowhere because it embodies a schizoid impulse: a firm commitment to the drastic reduction of U.S. dependence on external energy supplies as a goal, accompanied by a persistent reluctance to implement the drastic policy actions required to achieve it. The time is long overdue, therefore, to seriously question the nearly universally shared premises that have given rise to the paralysis that now grips us.

The underlying commitment to national energy autarky rests on three axiomatic assumptions about the world energy condition. Like Chicken Little's inferences, these axioms represent a fundamental misapprehension of the actual state of affairs.

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The first axiom is that the world faces the *imminent exhaustion of conventional fossil fuels* and that the "business-as-usual" workings of the marketplace are totally inadequate to respond to impending supply shortfalls. As the world's most powerful economy, the U.S. must therefore take the lead in politically managing the indicated transition to a low-energy, non-petroleum-based society. The second is that regardless of the precise state of potential world supplies or the timetable for depletion, *the world energy marketplace was irremediably impaired by the events of October 1973.* The market has been superseded by a politically motivated cartel presenting every manner of economic and national security peril to those nations which fail to take prudent steps toward insulating their economies from its reach. The final assumption is that *home grown energy is better,* and that by reducing imports through NEP-type substitution and conservation schemes we will improve our balance of payments, strengthen the dollar, and enhance the performance of the domestic economy.

The first two propositions merit serious analysis and comprise the burden of that which follows. The third is a manifestation of economic wishful thinking, and can be refuted without much difficulty.

Hothouse energy: a dubious bargain

At bottom, the notion that "home grown energy is better" implies a radical rejection of the global trading system and the law of comparative advantage on which it is premised. Anyone advocating a policy of autarky for bananas, textiles, tin, or transistor radios, for example, is immediately suspected of economic illiteracy or of possessing an economic axe to grind. But not so for oil or other energy supplies, although they are tradeable commodities subject to the same economic laws.

The fact that we are importing 3.4 billion barrels annually of oil and natural gas, or 30 percent of our total energy supply, strongly suggests that a policy-induced regime of autarky would be expensive indeed. Of course, our current levels of imports are excessive and uneconomic to the extent to which they represent distortions caused by oil and gas price controls, the entitlements subsidy, and lesser aspects of the current energy program. As Hall and Pindyck suggested in their Spring 1977 article in *The Public Interest,* the current U.S. policy of maintaining domestic prices roughly 30 percent below the world level may result in up to 3 million barrels per day (mm bbls./day) additional demand and may suppress 2 mm

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bbls./day of domestic production. Dismantling the present government-imposed energy-management structure, and allowing the market to clear at the world price, would thus reduce imports and confer substantial economic benefits on the nation.

But this would not be a policy of deliberate autarky. It would be precisely the opposite—a market solution. And in any event, a requirement for nearly 1 billion barrels per year of imported energy would remain. Moreover, even under a free domestic market, in future years the level of imports would inevitably rise. At the current world energy price level, the present U.S. energy demand of approximately 38 mm bbls./day oil-equivalent would rise to well over 50 mm bbls./day by the late 1980's, even if the domestic price were allowed to rise to the world level and greater end-use efficiency (conservation) resulted. Given the high cost of remaining U.S. oil and gas reserves, and the equally high cost of coal combustion in all but the largest utility and steam applications, no convincing case has been made that U.S. domestic supply in the next decade could be raised much beyond 40 million barrels per day—even if every price controller in the Department of Energy (and the Texas Railroad Commission) were placed on immediate early retirement. Achieving the lowest-cost economic solution to energy supply on both theoretical and practical grounds thus necessitates *increasing* U.S. import dependence in the years ahead.

It is precisely this inexorable rise in dependence upon external supplies that autarky-based U.S. energy policies are designed to reverse. But even a cursory examination of the implementation strategies contained in the NEP and subsequent elaborations reveals the staggering cost-penalties involved.

The mandatory coal-conversion program, which it was originally claimed would displace more than 3 mm bbls./day of oil and gas use, is a case in point. Since the quadrupling of world oil prices, the marketplace has already effected a major coal-conversion program of its own. In the last two years, almost no large utility or industrial oil-fired boilers have been ordered, whereas prior to 1974, oil- and gas-fired units accounted for nearly one-half of new capacity. The reason for the switch to coal is simply that at a mine-mouth cost of five to seven dollars per barrel energy-equivalent, the total combustion cost of coal is lower than that of petroleum, even after making allowance for higher basic-equipment costs and elaborate pollution control devices.

The Administration program would have gone far beyond the cost-effective displacement now taking place, however. It would

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have required the scrapping of billions of dollars worth of existing oil-and gas-fired combustion equipment and its premature replacement with new coal facilities—since "conversion" is in fact a euphemism for replacement in the case of equipment designed to use only oil or gas. In addition, the program would have mandated direct coal combustion in small and medium-sized industrial boilers, in which the substantial economies of scale in pollution control and coal storage and handling available to large utility and industrial steam plants are absent. And it even proposed the forced conversion to coal of many non-steam combustion applications—among them direct- and indirect-firing ovens, furnaces, and kilns, which would have borne the brunt of the mandatory conversion program, even though the unit costs of storage, handling, pollution clean-up, product-quality control and combustion-equipment maintenance associated with coal use would be prohibitively expensive. Depending upon a wide range of variables, the total cost of coal combustion in such facilities can range from $15 to $40 per barrel or more of oil-equivalent. Had the original Draconian coal conversion program been adopted and implemented, the 3 mm bbls./day of oil it might have displaced would have extracted a multi-billion dollar annual premium from the economy above and beyond the lowest-cost alternative—imported oil.

The same logic holds for all of the other substitution strategies proposed or implemented. All of the evidence suggests that coal-based synthetics (both liquid and gaseous forms) will not come in at under $20 per barrel and may cost $30 per barrel. Likewise, the proposed tax subsidies of three to four dollars per barrel for $18 shale-based petroleum would not change its supply cost to the economy—only the accounting system and the incidence of the fuel bills for whatever supplies might be produced. The same is true for the solar-heating subsidies proposed by renewable-energy enthusiasts: Energy supplied at an economic cost ranging from $25 to $40 per barrel-equivalent, even if subsidized down to current market levels with tax credits, would not only heavily burden the economy, but also might cause an increasing number of homeowners to wonder why they are paying half of their neighbors' fuel bills.

The strategems for bureaucratically ordered improvements in consumption efficiency fare no better on economic-benefit grounds. The Department of Transportation, for example, was recently compelled to modify proposed mandatory-fuel-economy standards for light trucks after it was pointed out that the cost of the projected fuel savings would be more than $40 per barrel.

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In short, the force-feeding of new energy supplies into the economy (by such means as coal conversion, synthetic fuels, and solar technology), or the artificial withdrawal of energy from the economy (mandatory efficiency standards) at costs-equivalent above the world price, are exceedingly bad economic bargains. Any attempt to displace the 3 to 5 billion barrels per year in imported liquid and gaseous fuels that will likely be required late in the next decade would impose a cost-penalty on the economy in the range of $40 to $70 billion per year. The result would be a substantial, unnecessary loss in national output, and an artificially high domestic-energy-cost structure which would reduce the competitiveness of our exports and increase the cost-advantage of imports. We obviously cannot improve our balance of payments or any other aspect of economic performance by resorting to home grown, hothouse bananas. The same is true for energy. If autarky is a defensible policy it must have some other, non-economic justification.

The myth of imminent depletion

If the case for energy autarky cannot rest on its intrinsic economic merits, it might nevertheless be made on the basis of postulated fundamental defects in the world market. Easiest to refute of these defenses of autarky is the assertion that conventional world supplies are nearing exhaustion.

Since the catalytic event which triggered the current march toward an autarky-based national energy policy occurred in the global context—the embargo crisis of October 1973—it did not take much of a leap in logic to assume that the U.S. oil and gas predicament was universal. After all, the cartel justified its action in the name of conservation and stretching dwindling oil supplies to cover the impending transition to the post-petroleum age.

The empirical data all point to the opposite conclusion, however. Even had it been known at the time of the embargo that the planet would refuse to give up one additional barrel of oil or gas reserves, there still would have remained a ready-to-produce worldwide inventory of proven reserves capable of sustaining consumption for more than a quarter-century. This hardly seems a basis for panic.

But a further argument was raised. Demand would continue to grow at high rates, thus rendering the world supply margin far thinner than current production-reserve ratios might imply. But this, in turn, assumed that new reserve additions would fail to keep pace with rising production. As of yet, there is no evidence for this con-

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clusion either. Since the end of 1973, worldwide crude oil production has amounted to 80 billion barrels. New reserve additions have exceeded 100 billion barrels. *Thus, nearly five years after the scarcity threat first arose, new reserves are still being added faster than production.* The absolute level of the world's proven reserve inventory continues to increase, notwithstanding a significant growth in annual production rates. The quarter-century oil inventory remains.

Nevertheless, the Malthusian assumption persists—if only on the vague and self-evident premise that exponential production growth of a finite resource must halt sometime. But for the purposes of policy it is important to know when that "sometime" will occur—a decade from now or a century from now. This vital query leads us to an examination of the worldwide resource base. And it is here that the perverse logic of Chicken Little has blanked out some rather compelling evidence that is incompatible with the imminent exhaustion hypothesis.

What the conventional wisdom failed to recognize in the aftermath of the embargo crisis was that there was no symmetry whatsoever between the U.S. oil and gas predicament and that of the remainder of the planet. The U.S. had indeed reached the point at which, under very exacting premises (conventional oil resources at existing prices under known technology), domestic oil production had reached a plateau and was moving inexorably toward final exhaustion of supply within a matter of decades. But the U.S. is a unique case. The rest of the world has barely inched away from the starting gate.

This is not surprising, given the global distribution of the resource base and the development history of the petroleum industry. According to most geologic estimates, the U.S. accounts for about 4 percent of the volume of hydrocarbon-bearing sediments deposited around the planet, and perhaps 12 percent of the 2.0-2.5 trillion barrel resource base of ultimately recoverable conventional crude oil. Yet, in contrast to this meager share of the resource base, it accounts for 75 percent of all the exploration and production wells ever drilled. Up until World War II, the U.S. accounted for nearly 70 percent of cumulative world production, and even during the subsequent 25 years, when the oil era came of age on a global scale, the U.S. still accounted for over a third of cumulative production.

Thus, when the sky began falling in 1973, more than a third of all the oil produced in the first century of the petroleum era had been extracted from the relatively small U.S. cornfield. As a result, the U.S. had produced nearly 45 percent of its conventionally esti-

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mated oil resource base, and—with the inclusion of proved and inferred reserves—nearly two-thirds was either already consumed or on-hand. The condition of the remainder of the world was dramatically different, however. Less than 10 percent of the non-U.S. conventional-oil resource base had been produced. For the major new producing areas outside the Western hemisphere, cumulative production relative to ultimately recoverable reserves was (and remains) negligible: 8 percent for the Middle East Persian Gulf, 7 percent for sub-Saharan Africa, and 3 percent for the North Sea.

Only by using improbable and non-economic assumptions about the growth in demand can one hypothesize a potential *physical* supply constraint before the turn of the century. For reasons that will be explored in more detail below, the sustained world oil-demand growth rate, at $13 per barrel, is not likely to exceed 3.5 percent per annum in the years ahead. At this rate, non-Communist world production would nearly double from its current 48 mm bbls./day to over 90 mm bbls./day by the year 2000. Yet this could be accomplished with an average new-reserve addition rate of only 23 billion barrels per year—*a rate significantly lower than that of the past decade*. Moreover, nearly half of the undiscovered oil resource base would remain intact.

The irony of the matter is that the great age of "world oil scarcity" began just barely after production of the resource had commenced. When U.S. energy policy swung sharply toward autarky in the aftermath of the embargo, partially on the theory that the world was running short of oil, more than 90 percent of the non-U.S. resource base remained to be produced.

Natural-gas resources

The asymmetry between the U.S. condition and the remainder of the world on natural gas was even more striking. The most recent geologic surveys suggest that the U.S. and Canada combined account for about 20 percent of the estimated conventional natural-gas resource base. But through the end of 1974, *70 percent* of cumulative world production had come from these hydrocarbon provinces. With the exception of the modest natural-gas industry in Western Europe (primarily the Netherlands) and the then newly developed Soviet industry, *the entire original geologic deposit of gas had not been commercially exploited outside of North America.* Cumulative production in Western Europe through 1974, for example, amounted to only 8 percent of the estimated resource base; in

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the case of the 13 hydrocarbon-rich OPEC countries, cumulative production was estimated at a mere 2.2 percent of the ultimately recoverable base, and for South and Central America the figure was 1.6 percent. Overall, 97 percent of the non-North American natural gas resource base had yet to be disturbed by a production-well bore. Nor was this potential resource negligible in dimension. The remaining natural-gas resource base outside of North America may total 1.4 trillion barrels-equivalent, a quantity of energy equal to four times all of the crude oil that has ever been produced.

As in the case of petroleum there is little prospect of a physical constraint on production of natural gas at any time before the turn of the century. Indeed, a recent American Gas Association worldwide survey projected a potential-production curve rising from 22 mm bbls./day in 1976 to 33 mm bbls./day by 1985 and 62 mm bbls./day by 2000. Moreover, even with substantial natural-gas substitution for coal or oil, were such substitutions to be economic, it is wholly unlikely that demand for gas will grow at anywhere near the 4.5 percent annual rate implicit in this potential-availability forecast.

The argument for autarky thus finds no support in the actual data on potential supply availability. It is based on grand supposition rather than on even a cursory examination of the evidence. When the conventional wisdom became locked on an autarky strategy in the early days after the embargo, it was true that the U.S. was substantially advanced along the curve of resource depletion—nearing the mid-point for oil and quarter-mark for natural gas, as the table on page 14 shows. But the more relevant factor—that the U.S. "cornfield" was an astoundingly small part of the global base (less than one-seventh) received almost no serious consideration. The decision to eschew an economic policy of trading on the world market for the 90 percent of the non-U.S. oil and gas resource base that remains to be developed in favor of a cramped, inward-looking policy of autarky may prove to be the most costly national error of the last half of the twentieth century—if it is not soon reversed.

There remains one obvious point. Neither the U.S. nor any other industrial economy requires crude oil from conventional geologic structures, such as those in Saudi Arabia and Texas. What is required is merely liquid-hydrocarbon feedstocks capable of being refined into a variety of end products. The same is true for natural gas. Industrial economies require gaseous-state hydrocarbons, but there is nothing to say that they must come from naturally trapped methane. The global potential to supply such hydrocarbons from

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TABLE I. *Depletion Asymmetry of the Global Oil and Gas Resource Base, Year-End 1973*

AREA	ESTIMATED RESOURCE (billion bbls.)	SHARE OF GLOBAL OIL & GAS RESOURCE BASE	CUMULATIVE PRODUCTION (billion bbls.)	PRODUCTION AS PERCENT OF BASE
U.S.				
Oil	242	5.9%	106	44.0%
Natural Gas	409	10.0	101	25.0
Subtotal	651	15.9	207	32.0
Non-U.S.				
Oil	2038	49.8%	213	10.0%
Natural Gas	1401	34.3	46	3.3
Sub-total	3439	84.1	259	7.5
World Total				
Oil	2280	55.7%	319	14.0%
Natural Gas	1810	44.3	147	8.1
Grand Total	4090	100.0%	466	11.4%

[1] Sources: The oil resource base figures are taken from E.N. Tiratsoo, *Oilfields of the World*, and represent the most recent consensus geologic estimates of ultimately recoverable conventional petroleum within the range of current prices and technology. The natural gas figures are from an American Gas Association study, "The Future for World Natural Gas Supply." The U.S. natural-gas figures include Canada.

unconventional sources is simply mind-boggling. No major breakthroughs in science, engineering, or technology would be required, and the price of such supplies would be perhaps not more than double the current oil price.

The most massive of these lower-grade reserves capable of being upgraded to suitable liquid and gaseous fuels is, of course, coal. Recoverable reserves are estimated in the 12 *trillion* barrel-equivalent range. The reasons why the gasification and liquification plants necessary to process coal into usable fuels have not been developed are distinctly non-technological: These plants would employ standard petrochemical and refining-industry engineering, chemistry, temperatures, and materials. But such plants remain outside of the supply system at present for purely economic reasons. Conventional crude oil is still cheaper to discover and produce.

The same is true for the massive quantities of heavy oils and tar sands. While geologic delineation is just beginning, potential reserves in the Western Hemisphere alone are estimated at 2.2 trillion barrels. Shale reserves, another potential liquid-hydrocarbon feedstock, are placed at five trillion barrels-equivalent worldwide, again

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as a result of only the most cursory geologic delineation. Moreover, recent successes with both demonstration and small-scale commercial plants in the Canadian tar sands, Rocky Mountain shales, and the Venezuelan heavy oil suggest that these resources may be producible at lower cost than coal-based synthetics—perhaps at substantially under $20 per barrel in the case of the most accessible deposits.

Finally, even the two trillion barrel conventional oil resource base has substantial potential for eventual expansion; it represents an estimated four to six trillion barrels of in-place oil, the greater part of which is deemed not recoverable at current prices using available technology. But recent investigations of the potential for new technology to push beyond the 25 to 40 percent recovery rates which now prevail suggest the likelihood of hundreds of billions of additional barrels of ultimate recovery within the parameters of an affordable price range and achievable technology.

Overall, the planet's accessible natural hydrocarbon reserves readily exceed 20 trillion barrels. *This is the equivalent of five centuries of consumption at current rates.* The figure would be even greater should the abundant geo-pressurized gas reserves prove to be economic. Moreover, exploitation of these resources would require scientific or technological advance of a far lower order than that of the moon-landing or current fusion-power experiments. The case for fossil-fuel exhaustion simply cannot rest on physical scarcity or the stinginess of the planet. Perforce it must assume a failure of man or his economic institutions.

Economic events

One such failure is widely believed to have occurred in October, 1973. Because OPEC sprang on the world sphinx-like out of the turmoil of the last Middle East war, it has been assumed that the original huge oil-price boosts were largely *political events*, reflecting the new-found political will, cooperation, and self-assertion of the Persian Gulf producers and their lesser oil-producing allies. Having successfully exerted political control over a substantial share of the world's crude oil reserve, so the argument goes, the cartel has essentially abolished any semblance of a normal world marketplace. If the laws of supply and demand have been revoked, and the predictability and reliability they generate are absent, neither the U.S. nor any other major industrial nation can afford to treat oil as just another commodity in world trade, the argument

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runs. Political usurpation of the market abroad must be countered with politically managed insulation of the market at home. As *The Washington Post* has consistently argued, the principal purpose of an autarky-based national energy policy is to provide insurance against embargoes, price extortion, and the other non-economically based perils emanating from a cartelized world oil market.

There is a strong case to be made, however, that the October 1973 and subsequent price boosts were almost entirely *economic events;* that they were generated by nearly irresistible global economic forces; and that their timing originated as much in the domestic-energy production and consumption policies of the major industrial nations during the late 1960's and early 1970's as in the political turmoil of the Middle East and the emergence of an organized worldwide oil-producers' cartel.

The catalytic force in this process was delineation of the huge, ultra-low-cost Persian Gulf petroleum reserves during the 1950's, and their subsequent entry into the world energy-supply system. Once it was known that the Gulf contained several hundred billion barrels of reserves producible at less than 20 cents per barrel, the oil and other fuel-supply industries in the remainder of the world were destined for mothballs. The only potential escape from the withering competition of Persian Gulf oil was extra-market intervention—either in the form of home-market-protection policies or, ironically, through production of these resources under cartel or monopoly (high price) arrangements.

For two decades the world tried a little bit of both. Industries threatened by sudden changes in global comparative advantage do not die easily; instead, they seize the levers of political power and hang on for dear life behind protective barriers—quotas, tariffs, subsidies, "buy national" policies, and such other expedients as can be erected to compensate for lost economic advantage.

In the U.S., the domestic-petroleum industry, and to a lesser extent the coal industry, repaired to the protective umbrella of the mandatory oil-import quota program. In Europe, various petroleum tariffs and taxes, as well as generous infusions of subsidized capital, provided relief for the beleaguered coal industry. On the other side of the equation, major oil companies comprising the "Seven Sisters" maintained a weak producer cartel by means of joint-production agreements. These arrangements permitted mutual surveillance of production and pricing actions, thereby preventing the outbreak of unrestrained competition in Middle East oil exports—a task made easier by the market-limiting protectionist policies of the United

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States and Western Europe. But home market protection schemes invariably extract huge economic costs from the consuming and taxpaying public. When the overseas comparative advantage is enormous, as it was for Persian Gulf oil, the cost of protection, and the political instability associated with it, increases commensurately.

For all practical purposes, Western Europe succumbed to Persian Gulf oil about 1965. By manful effort, coal production was held at nearly 500 million tons per year for two decades after World War II, but at last production plummeted when additional sufficient compensatory subsidies were not forthcoming. By 1973, Western European coal production had declined by 33 percent from its mid-1960's peak, or by the oil-equivalent of nearly one billion barrels annually. The much smaller Japanese coal industry experienced a 60-percent decline during the same period.

The petroleum producing provinces of the Western hemisphere maintained the appearance of vigor slightly longer. Production steadily climbed during the 1960's, rising from 4.1 to 5.8 billion barrels annually—or by 40 percent from the opening to the close of the decade. As a result, the U.S. was able to satisfy 70 percent of its petroleum-demand growth out of domestic-production gains during the decade. But in a world in which the cheap Persian Gulf reserves brought steadily declining real prices, a trend which M.A. Adelman of the Massachusetts Institute of Technology has shown even the Seven Sisters could not stem, the 1960's production growth of the old provinces was clearly not sustainable.

In fact, this growth was generated primarily out of the large inventory of new reserves delineated in the fifteen years immediately after World War II. During this period Western hemisphere reserves doubled, from 30 to 60 billion barrels, and the reserve-production ratio improved substantially despite steady gains in output. But in the 1960's, this reserve margin was steadily liquidated. Rising production masked the fact that the economic incentives to find new reserves and provide for future production were rapidly disappearing. By the end of the decade, the search for new reserves in the U.S. had gone into a tailspin. Between 1959 and 1973, total wells drilled declined 35 percent, well footage by 27 percent, and exploratory drilling by nearly 50 percent. As a result, genuinely new reserve additions (excluding revisions of prior finds) literally collapsed: The U.S. added two billion barrels per year of new reserves in the mid-1950's; about one billion per year in the late 1960's, and only 594 million barrels by 1973. On the eve of the embargo, truly new domestic reserves were replacing only 9 percent

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of U.S. consumption and less than 25 percent of the nation's production.

The economic reasons for this precipitous decline are readily apparent. By the early 1970's, the marginal cost of new U.S. crude-oil reserves was between seven and ten dollars per barrel. Had a leakproof import protection policy remained intact, the then-current three dollar per barrel domestic price would have risen to this level and the gap between the import price and the domestic price would have become enormous.

The American public was unwilling to support such a costly policy, however. The leaks in the import quota quickly sprang into a torrent under the pressure of rising demand. From the perspective of hindsight, 1970 was a critical turning point: By then the excess reserves which had sustained rising domestic production for more than a decade had been almost entirely eliminated. This fact was symbolically confirmed shortly thereafter when the Texas Railroad Commission authorized a 100-percent production "allowable" as of April 1972, thus ending decades of production restraints. Henceforth, all incremental U.S. petroleum supplies would come from the Persian Gulf so long as the low price prevailed. The U.S. petroleum industry, like the European coal industry, had become the victim of the marketplace's relentless search for the least-cost source of supply—a powerful momentum that industry-sponsored trade barriers could not long contain. The smaller Canadian and Venezuelan oil industries confronted essentially the same economic pressures, and reached peak production at roughly the same time. Overall, Western hemisphere oil production peaked at 5.8 billion barrels per year in 1970 and remained level thereafter.

A significant consumption policy drove the final nail in the coffin. In the late 1960's, the major industrial nations, led by the U.S., began to impose meaningful sulphur emissions controls on major utility and industrial consumers of energy. This further shifted the comparative advantage to Persian Gulf oil. On a total "cost of combustion" basis, high-sulphur coal could not compete with foreign oil—then available at a delivered price of two dollars per barrel. As a result of these policies, demand by U.S. utilities for fuel oil tripled between 1967 and 1973, rising to 1.6 million barrels per day, at an almost 30 percent annual rate of increase.

The combination and timing of these developments was extraordinary. After 1970, nearly the entire increment of non-Communist world energy-demand growth had to be satisfied out of the Persian Gulf. During this four-year period, old-province oil (that is, oil

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from areas already producing) and industrial-area coal production declined by the equivalent of one-half billion barrels of oil. At the same time, the post-1970 worldwide economic recovery pushed demand growth rates to nearly unprecedented levels. U.S., Western European, and Japanese demand for Persian Gulf imports thus exploded prior to October 1973, rising by 2.5 billion barrels in less than 36 months.

The OPEC cartel

Under these circumstances, the Persian Gulf became the classical marginal supplier. Between 1969 and 1973, production galloped upward at a 15 percent annual rate. It was rising at a 25 percent annual rate in the period immediately before the October events threw on the brakes. During the period from 1969 to 1973, the Persian Gulf supplied 97 percent of incremental OPEC production, 92 percent of incremental world oil production, and 70 percent of incremental world energy supplies from all sources; after 1972, nearly 90 percent of additional world energy demand was satisfied with Persian Gulf oil. With the effective collapse of domestic energy-industry-protection policies in the industrial nations after 1970, the full comparative advantage of the Persian Gulf asserted itself. The Seven Sisters cartel was unwilling or unable to restrain production and force up the price due to the entry of new producers after 1960 and the resulting competitive market pressures. And the modest pre-1973 price increases obtained by OPEC were not sufficient to make competitive any other potential source of additional energy supply.

There is strong reason to believe, however, that this pattern of rapid growth in OPEC production would not have been sustainable without a major price rise sometime after 1973—even had the Gulf oil properties been in the hands of Wild-West Texas entrepreneurs rather than the sheiks. Given the 5 percent world-energy-demand growth rate which prevailed under pre-embargo conditions, and the Persian Gulf burden of providing from 80 to 100 percent of incremental world energy supplies, Gulf production would have had to have risen by a staggering six to seven billion barrels by 1978 had the trend not been broken. This would have meant an effective doubling of the already high production levels of 1973.

While the reserve potential to support output of this magnitude was easily available, the production capacity was not. In 1973, installed capacity in the Gulf amounted to about 25 mm bbls./day. Continuation of the pre-1973 trend would have required production

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rates of from 37-41 mm bbls./day by 1978. It is highly doubtful that the necessary loading facilities, gathering-pipelines, separation plants, new production wells, and associated reservoir-engineering and management practices could have been installed rapidly enough to translate reserves into the required production levels. And so the world market itself would have likely bid up the Gulf price to the eventual OPEC levels within a very few years.

Thus, far more than the manifestation of a capricious exercise of political power by the OPEC cartel—which to some extent it was, of course—the world oil price quadrupling represented the unavoidable release of economic tensions built up in the world energy supply system after 1970. What the cartel can primarily take credit for are the timing and circumstances under which these pressures were released.

It can also take credit for the aftermath. In a non-cartelized market this disequilibrium would have resulted in a temporary commodity boom cycle rather than a permanent change in the terms of trade. The peak prices generated by temporary supply/demand imbalance would have eventually come down in response to reduced demand and the rapid expansion of Persian Gulf supply capacity. The one truly political act of the cartel, therefore, was to *maintain* the new price level by refusing to produce in excess of the now-reduced world oil demand at the new price. Its motivation for this policy is not hard to fathom. Between October 1, 1973 and January 1, 1977, the market value of proven Persian Gulf crude oil reserves increased from one to *five trillion dollars!* But the power to preserve the largest windfall capital gain in recorded economic history—by the simple and costless expedient of freezing production levels—implies almost nothing about OPEC's capacity for unilateral acts of similar import in the future.

Indeed, the global economic conditions necessary for another major unilateral price action by OPEC are not likely to re-emerge for more than a decade—if ever. Since OPEC rode a tide of global economic forces to their crest, it is illogical to assume that it now hangs from an economic sky-hook, immune to the very global economic forces which created its original opportunity. Yet the fear of the cartel's capacity for capricious action persists—as is evidenced by the U.S. drive to strangle its own economy in pursuit of a haven safe from OPEC's reach.

It is equally illogical to assume that even though OPEC altered with a cartel solution what would have been the normal market outcome of the early 1970's energy disequilibrium, there will not

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be compensatory reverberations throughout the world economy. In fact, in one fell swoop—by the decision to halt production growth and stabilize the high price—OPEC reversed all of the global economic pressures that caused worldwide energy demand to converge on the Persian Gulf in the early 1970's. At $13 per barrel, the Persian Gulf is no longer the unassailable marginal supplier, possessed of a withering comparative advantage. Instead, OPEC has unleashed powerful economic counter-forces which will make it the supplier of last resort, not first, and which are already profoundly altering the shape of the global economy.

The consequences of OPEC: the bright side

The displacement of the Persian Gulf as the predominant supplier of new energy production to the world market is an inevitable consequence of the changed price structure for oil. At a price ceiling of $2 per barrel, substantial new supplies could be produced only from the vast hydrocarbon storehouse of the Persian Gulf. But at $13 per barrel, new energy in massive quantities can be generated virtually anywhere on the planet.

One of the most prolific new energy sources is not even a conventional fuel. The substitution of non-fuel factors and new technology—one example being the increased use of aluminum and plastics in transportation equipment, which lowers fuel consumption without affecting performance by lowering vehicle weight—has made available vast new "conservation supplies." In the years between 1970 and 1977, the ratio of energy consumption to real GNP declined by nearly 10 percent in the U.S. This is an implied savings for 1977 equal to 3.8 million barrels per day of oil, a quantity larger than the oil production of all the fields in Texas.

Substitution of non-energy factors for fuel has been equally dramatic elsewhere in the industrial world. For the OECD area as a whole, real GNP rose by 9 percent between 1973 and 1977. Under the GNP/energy-demand growth ratio of 1.0 that prevailed prior to the embargo, energy consumption would have grown by the same percentage. Yet in actuality energy-demand growth was only 1.3 percent. The savings from end-use efficiency improvements and non-fuel substitution thus implied equalled 5.5 million barrels per day in 1977—the current daily production of Iran. And these "conservation supplies" can be expected to grow for many more years, as new equipment continues to replace less energy-efficient capital stock.

But it is on the conventional supply side of the equation that

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the effect of a higher oil price will be most dramatic. The new oil price has reversed the collapse of the world coal industry, rejuvenated the old oil and gas provinces, paved the way for a major worldwide natural-gas/liquified-natural-gas industry and rendered economic numerous new petroleum provinces all around the globe. Very little of the billions of barrels worth of energy that these sources will pour into the world economy in the decades ahead would have been produced at the pre-1973 energy price.

The changed economics of the coal industry are particularly striking. Despite strong growth in world energy demand, world coal production remained static between 1963 and 1973 at about 5.5 billion barrels-equivalent per year. There can be little doubt that had world oil prices not moved to a permanently higher level, coal production would have steadily declined after 1973 as a result of the progressive tightening of emissions standards.

But under the OPEC price umbrella the comparative economics of coal shifted drastically: even high sulphur coal with stack clean-up is now cheaper as a utility-boiler fuel than world-price oil. In a recent world energy supply survey, Exxon has forecast non-Communist world coal production rising to 8.8 billion barrels-equivalent by 1985 and to nearly 11 billion barrels by 1990. By the late 1980's, worldwide coal production will exceed its pre-1973 anticipated-decline trend by 16-21 million barrels per day—an energy supply that exceeds the present combined oil-production rate of the entire Persian Gulf.

The potential petroleum supply ramifications of the OPEC price umbrella are most evident in the case of the developing areas of the world. According to the calculations of Bernardo Grossling of the U.S. Geological Survey, the developing world contains 50 percent of the prospective hydrocarbon-bearing sediments of the planet. But by 1973, these areas had accounted for only 6 percent of cumulative oil production, and perhaps more important, for only 4 percent of the exploratory wells ever drilled. Indeed, during the two year period 1955-56, more exploratory wells were drilled in the U.S. than have been drilled in the entire developing world (including Communist China) since the beginning of the petroleum age.

According to a recent report by the World Bank, however, exploration and production activities are now underway in nearly 60 countries. Prior to 1973, there were only a dozen commercial oil and gas producers among less developed nations (LDC's).

Mexico provides an example of the great potential unleashed in the LDC's. At the end of 1972, Mexican hydrocarbon reserves were

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published at a very modest 2.4 billion barrels—only slightly more than the actual oil and gas production during that year across the border in the state of Texas. Since 1973, however, Mexico has been the recipient of a massive flow of external capital for discovery, delineation and development of the long-suspected energy potential of the nation.

The results should startle even the most confirmed Malthusean. By 1977 published reserves had reached 17 billion barrels. Pemex, Mexico's national oil company, now claims reserves of 40 billion, with little dissent from informed world oil watchers—especially international banks. Indeed, it is increasingly believed by those who have analyzed the results of the current intensive drilling program, that Mexico may possess more than 100 billion barrels of recoverable hydrocarbons, which would put Mexico in the top ranks of world producers. Moreover, these reserves are undergoing a rapid transformation into a rising production curve. Pre-embargo production (from 1930's discoveries) of 450,000 bbls./day has already increased to 1.2 mm bbls./day, will pass 2 mm bbls./day by 1980, and could exceed 5 mm bbls./day by 1985.

Overall, the World Bank has forecast that Mexico and other LDC's will increase their oil and gas production by a total of 140 percent by 1985 as a result of the infusion of nearly $70 billion in new capital over the coming decade. This production gain of 2.5 billion barrels annually would have been inconceivable without the OPEC price umbrella.

High-cost supplies

The old oil provinces also benefitted from the OPEC price. The 1973 price increase has decisively revived future U.S. production capacity. One of the most important changes is in the much brighter prospects for oil recovery. A major study by the Congressional Office of Technology Assessment (OTA) concluded recently that only 2 billion barrels of production using high-cost, sophisticated Enhanced Oil Recovery (EOR) techniques would have been economic at the pre-1973 price. But at a $13 per barrel price, the consensus of estimates for EOR from presently producing fields ranges from 15 to 30 billion barrels—a potential doubling of the present proved reserves of the U.S. The OTA also estimated that under pricing policies geared to the world level, and with favorable technological performance, the potential U.S. production curve with these enhanced techniques could rise from practically nothing today

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to 1 mm bbls./day by 1985 and to 3.1 mm bbls./day by 1995.

The OPEC price has also renewed the nearly moribund search for new, high-cost reserves in the United States. The number of exploratory wells drilled in 1977 was up 33 percent from its early 1970's low; the number of drilling rigs in the field has doubled. According to a recent sophisticated probability study by Exxon, there may be up to 75 billion barrels of remaining on-shore recoverable reserves (beyond current proven reserves of 30 billion barrels) scattered in smaller, previously uneconomic fields and structures. These high-cost reserves should enable U.S. production to stabilize at current levels (9-10 mm bbls./day) for a decade or more; at the pre-1973 prices production would have declined to less than half that rate by the late 1980's.

These same dynamics apply to the smaller Canadian oil and gas industry—with even greater intensity. Between 1970 and 1973, new Canadian reserves of oil, natural-gas liquids, and natural gas amounted to only 70 percent of production, and with the prospects of future supply declining, the Canadian government began phasing out its large oil and gas exports to the U.S. in order to preserve its modest future supply. During the intervening five years, however, the Canadian supply outlook has changed dramatically. Ottawa is now under enormous pressure to reverse its export policy in order to avert massive shut-ins of its rapidly improving oil and gas production capacity. During 1977, for example, new reserves of oil, natural-gas liquids, and natural gas *exceeded* production by nearly 30 percent. In recent months, what may prove to be the single largest oil field in Canadian history has been announced—West Pembina, which has an estimated reserve potential of between 1 and 2 billion barrels. Last year's "Deep Basin" gas discovery offers even greater promise.

But the greatest new Canadian production potential may lie in two frontier sources that appear to be on the verge of being economic at the $13 cartel price. The shallow waters of the Beaufort Sea, located within the Arctic Circle, are believed to be one of the most prodigious remaining hydrocarbon provinces in the world. Some experts place ultimate oil and gas reserves at more than 100 billion barrels-equivalent. The high world price is now supporting an exploration and development program that could well bring this enormous find on stream by 1990.

The other potential new Canadian source—the Athabasca tar sands and the Cold Lake heavy-oil region—are of Persian Gulf proportions in their hydrocarbon potential: In-place reserves are estimated at one trillion barrels, with nearly 100 billion barrels believed recov-

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erable by surface extraction. In-place and scheduled extraction plants will be producing 500,000 bbls./day by the mid-1980's.

The 1973 oil price change has also transformed the development schedule for the vast global reserve of natural gas. As was pointed out previously, commercial-gas production outside of North America was still in its infancy at the time of the embargo. The reason was wholly economic. As in the case of crude oil, most of the planet's reserves of natural gas are located vast distances from industrial markets—in the U.S. and Canadian Arctic, the Persian Gulf, lower Mexico, Western Siberia, and Southeast Asia and Australia. But unlike crude oil, gas cannot be cheaply transported in its natural state. Its BTU density per cubic foot is less than 2 percent that of crude oil. The conversion of natural gas to liquid form—the most economical method for long-distance ocean transport—substantially increases its cost relative to that of petroleum. On a delivered BTU basis, shipping liquified natural gas is 10 times more expensive than transporting crude oil by large tanker.

Crude oil prices in the $13 range were therefore essential in order to make utilization of most of the planet's natural-gas reserve economic. In the years ahead, the OPEC crude oil price unbrella can be expected to facilitate the development of Siberian, Malaysian, Indonesian, and Australian gas for the Japanese and Far Eastern market; North African and Persian Gulf gas for the Western European and U.S. market; U.S. and Canadian Arctic gas for the North American market; and North Sea gas for the Western European market. From a miniscule 130,000 barrels per day oil-equivalent in 1970, liquid natural gas facilities are expected to supply more than 2 mm bbls./day oil-equivalent by 1980, and up to 5 mm bbls./day by the mid-1980's.

Overall, the American Gas Association has predicted a 26 trillion cubic feet world wide natural-gas-production increase by 1985 over the pre-embargo level. Such a production gain, if it materializes, would equal in energy content the current combined oil production of Saudi Arabia, Kuwait, and the United Arab Emirates (UAE). By the turn of the century, the natural-gas production gain over 1973 projected by the Association is 20 million barrels per day oil-equivalent, an amount greater than the combined crude production of all of the Persian Gulf producers, including Iran and Iraq. As in the case of coal, the long-run effect on natural gas of the OPEC oil-price increase will be to transform a weak competitor into an equal partner in meeting the energy demands of the world.

One final supply effect on the world economy needs to be noted.

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In a kind of perverse serendipity, the Gulf producers' cartel strategy has given the autarchic Communist-bloc nations a major new opportunity to enter the world trading system. Shackled with currencies that have no exchange value, and manufacturing industries that produce goods for which there is little Western demand, the Communist bloc countries (with the possible exception of a few in Eastern Europe) had little hope prior to 1973 of trading arrangements that would generate significant quantities of hard currencies —notwithstanding rhetoric about increased East-West trade. Shoddy Soviet hard-goods and Chinese rugs, pig bristles, varnish, and feathers simply do not have a bright future as export commodities.

But energy supplies do. And the Communist bloc nations are prodigiously endowed with hydrocarbon resources. Even on the basis of conventional estimates, it would appear that bloc countries hold nearly 50 percent of recoverable world reserves of oil, gas, and coal. *This sum is 250 times greater than worldwide consumption of these resources in 1977.* Moreover, some geologists think that the Communist-bloc resource potential is even more staggering. A. A. Meyerhoff has estimated that the three Siberian basins alone may contain as much gas and oil as the entire Persian Gulf—800 billion barrels-equivalent.

On the basis of resource potential, demonstrated production ability, development policies, and projects underway, (as well as the prohibitive costs of hard-currency oil purchases from the West) there is virtually no probability that the Communist bloc will become a net energy importer during the next decade, as the CIA has forecast. Nor is this position likely to change for the rest of the century. As the *Oil and Gas Journal* concluded last fall after an extensive survey of Soviet oil-production prospects: "Predictions that the Soviet Union will soon become a net oil importer appear as hollow today as in the late 1960's, when that view gained currency among Western observers."

Rather, the dynamics press in the opposite direction. Oil and gas hold a unique status in the Communist economies as the one product that can be readily sold for hard currency on international markets. Even with only partial success in adjusting internal fuel-consumption patterns (the Soviet Union is already programming a major internal shift toward more gas, coal, and nuclear) and in solving production and development problems, it is nearly certain that the Communist bloc will remain a modest net oil and gas exporter to the world trading system in the years ahead. If they have favorable access to Western petroleum technology and surmount supply-development

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problems, they could become a major net exporter. The OPEC price has given them unparalleled incentive to do just that.

The worldwide supply consequences of the cartel's decision not to permit a market-clearing price and production level for Persian Gulf reserves will be monumental in the years ahead. The $13 world oil price has completely shifted the supply schedule for a whole range of the planet's fuel resources, a shift which will facilitate the production of tens of billions of barrels of what would have otherwise been non-economic reserves. At bottom, the notion that the energy sky is falling is based on the wholly non-economic view that price and supply are unrelated.

The consequences of OPEC: the dark side

The high Persian Gulf oil price has also drastically realigned the world petroleum demand schedule. Unfortunately, the macroeconomic effect of the cartelization of Persian Gulf oil, like much else relating to energy, has been viewed upside down. The conventional perception is that the quadrupling of oil prices has had a severe inflationary effect on the U.S. and other industrial economies. But the oil price surge of 1974-76 did not cause the double-digit inflation that afflicted the industrial world in those years. Rather, hyper-inflation was the result of monetary policy responses to the OPEC price increase. A change in the relative price of one commodity cannot cause the general price level to increase, no matter how large the price increase or how important the commodity as a supply factor. Such relative price changes only induce a reallocation of money demand away from other goods and services to the extent of the demand inelasticity of the commodity in question. For this reason, substantial relative price increases are always *deflationary* in their real economic impact. In the case of oil—which supplied roughly 55 percent of world energy needs in 1973—the quadrupling of the real price was exceedingly deflationary in the short run because nearly the entire capital stock (homes, autos, factories) of the industrial economies was dependent on relatively fixed oil supplies to sustain existing levels of economic activity.

The sharp rise in oil prices thus necessitated that demand for non-oil goods and services give way, and that total output fall. Economist Robert Pindyck has calculated that the industrial world could not have avoided suffering a 5 percent—roughly $200 billion—loss in real output as a result of the doubling of energy prices in the aggregate that took place between 1973 and 1976. But the time

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distribution of that output loss was a function of monetary policy.

Had the industrial nations made no attempt to neutralize the abrupt increase in world oil prices, the deflationary impact would have been immediate and traumatic. It would have touched off an even more virulent recession than actually occurred. As it turned out, the industrial world, led by the U.S., maintained relatively rapid rates of money supply growth even as both potential and actual output were falling. And with U.S. output declining at a 2 to 3 percent annual rate, and the money supply expanding by more than a 6 percent rate during 1974, a price explosion was inevitable. Between mid-1973 and the end of 1974, the U.S. GNP deflator rate (which is to say, the inflation rate) doubled—from 6 to 12 percent.

But industrial bloc monetary expansion, helpful as it may have been as a short-run expedient to cushion the oil-price blow, could only delay the full deflationary impact of the quantum jump in world energy prices. The evidence of how the oil-price shock, coupled with additional growth-retarding factors, has drastically lowered the economic growth rate throughout most of the world is already available. As shown in the table below, real growth rates in the second half of the 1970's are now nearly certain to be *half* of the 1960-73 average. In the case of Europe and Japan, the growth-rate reduction is even more pronounced.

TABLE II. *Worldwide Real Economic Growth Rates Pre- and Post-1973*[1]

AREA	1960-73	1974-79	1974-1979 AS PERCENT OF 1960-1973
United States	4.0%	2.6%	65%
OECD-Europe	4.7	2.2	47
Japan	10.5	4.3	41
All Industrial Countries	4.9	2.4	49
Developing Countries	5.6	4.5	80
Total World (Non-Communist)	5.0%	2.7%	54%

[1] Sources: Data for 1960-77 represent actual real GNP growth for areas shown; 1978-79 based on consensus estimates from government agencies, international organizations, and banks. Developing countries exclude OPEC.

Obviously, five years is not a permanent long-term trend, nor is this drastic decline in real growth rates solely a function of higher energy prices. But it is apparent that slow growth can no longer be

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blamed on the deep recession of 1975. The present business cycle is now nearly mature. The prospect for the immediate future is for a renewed period of sharply decelerating growth, if not an actual U.S.-led worldwide recession by the turn of the decade. And just as high energy prices are not likely to vanish in the immediate future, neither will other fundamentally new variables in the growth equation, such as the slowing of labor-force growth rates in the U.S. and much of the industrial world, increased production costs due to tougher pollution control standards, and increases in the real cost of labor due to strengthening of workplace health and safety standards.

The monetary flood

This growth burden is serious enough in itself. But the United States, reflecting its status as the last bastion of Keynesian fiscal orthodoxy, resolutely insists that it isn't so, and thereby threatens to make things considerably worse. After the initial oil shock had been absorbed in 1975 and it was clear that OPEC was firmly committed to permanently altering the terms of trade in oil, the U.S. continued to pursue a fiscal/monetary strategy that rapidly expanded nominal GNP in accordance with Keynesian prescriptions from an earlier era. The result has been a nominal GNP explosion: Nominal GNP has grown at a feverish rate of 12 percent since the first quarter of 1975. That the U.S. economy is now perched on a precarious bed of egg shells should not be surprising; at a time when the real-growth capacity of the U.S. economy is lower than it has been in decades, nominal GNP in the last 13 quarters has been force-fed at a pace far faster than the rate for any comparable period since the Korean War. This widening divergence between nominal demand and real output can only result in skyrocketing prices and, due to the dollar's international role, growing worldwide monetary turbulence.

That the international economy is consequently now beginning to totter on its foundations should not be surprising. The rest of the world simply will not be, as some of our leaders suppose, innocent prey for the monetary illusions being flashed around the globe by U.S. economic policies. During the 1977 London summit, the West Germans and Japanese obligingly promised to apply a substantial dose of U.S.-style stimulus to their economies. They then went home and stayed on their previous, more prudent post-1973 course. This naturally meant lower real-growth rates and substantially lower inflation rates than prevailed in the U.S. The results of the most recent

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summit are not likely to be much different. Our monetary expansion has not deceived anyone.

But the international monetary and trading system cannot bear the accumulating strains of this U.S. "Lone Ranger" policy indefinitely, nor can our major trading partners afford to continue to politely ignore our advice. U.S. nominal GNP is now expanding at nearly three times West Germany's rate and considerably faster than even that of Japan. The only possible result from a continuation of this unprecedented asymmetry is a world economy so overstuffed with paper dollars that it begins to split apart at the seams.

The anti-growth implications are clear. Under the prodding of anxious export industries, today's "dirty" currency floats, in which governments attempt to influence exchange rates, will become dirtier and more costly for nations compelled to "defend" themselves from the dollar onslaught. The flow of international investment capital will be slowed further. Currency-portfolio jugglers will displace production and marketing men in calling the shots in the great industrial enterprises that comprise the core of the world economy. The forces of economic nationalism will increasingly come to the fore and burden the world economy with a proliferating array of trade-inhibiting expedients designed to provide shelter from the external perils, real and imagined, perceived by domestic industries.

In short, by dogged adherence to the essentially crank economic notion that the growth-inhibiting effects of the radical change in the supply cost of energy can be overcome with exuberent monetary expansionism, the U.S. is now leading the world toward a contractionary cycle in trade and commerce that can only further depress the growth and performance potential of the national economies affected. The buoyant national growth rates of the 1955-73 period were abetted by a rising tide of international economic integration and trade growth that proceeded far faster than the growth in world output. The prospects for the next decade all point the other way.

Even the few Persian Gulf sheiks who lack Harvard Business School degrees have not been mesmerized by the U.S. monetary mirrors. By virtue of the cartel's halting the expansion of Persian Gulf oil production after October 1973, the world economy very quickly reached the optimum price/demand relationship. By October 1974, when the world economy buckled under the oil-cost pressure, the producer "take" on Persian Gulf oil had quadrupled from its January 1973 level—rising from $1.27 to $5.50 per barrel in constant 1970 U.S. dollars adjusted for exchange-rate fluctuations. That "take" has not changed significantly in the intervening four years.

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Indeed, the entire price drama that has transpired since reaching the 1974 real-price level has been mere shadow boxing. Led by the U.S., the industrial world has steadily devalued its currencies and inflated the nominal price of its export goods. On more than a half-dozen occasions, the cartel has reciprocated by raising its posted prices or by increasing the government "take" through modifications of participation arrangements. After all this back-and-forth, the nominal Saudi "marker" price for crude oil is 30 percent higher than October 1974, but the inflation- and currency-adjusted "take" is still $5.50 per barrel on the average in constant 1970 dollars.

The Persian Gulf cartel has thus shown its unwillingness to be swindled out of its huge windfall capital gain. Under these circumstances, a continuation of U.S. monetary profligacy can only damage the world trading system and reduce real growth at home and abroad. In the process, it reinforces the wholly erroneous notion that OPEC—which does raise its nominal prices—retains the power to unilaterally "raise" *real* oil prices, or is entitled to diplomatic and political concessions if it demonstrates restraint.

Thus, the dark side of the cartel comes into full relief. By effectively withholding part of the Persian Gulf hydrocarbon storehouse from the world economy, the cartel has temporarily denied the entire world the opportunity to prosper by tapping the prodigious amount of ready-to-use low-cost fuel reserves produced by the planet over the geologic ages. As it is, the planet's legacy in the Persian Gulf must now be supplanted by a quantum leap in the application of human and physical capital in order to unearth less easily obtainable resources from elsewhere on the globe.

This task can and is being accomplished, as the preceding section on energy supply expansion demonstrated. But these additional supplies come only at a *huge cost in lost opportunities* for the world economy as a whole. The quantum leap in the resources required just to "run-in-place" in terms of energy supply means that less of other things can be produced, that output will be lower than otherwise, and that growth rates of worldwide physical production and economic well-being will be reduced.

Furthermore, this opportunity cost is compounded by the economic impact of the wealth transfer implicit in even those oil supplies that the cartel is willing to make available. Were the recipients of these rents capable of employing their receipts as productively as the industrial world, there would be no additional output loss—just a transfer of title to wealth. But the Persian Gulf producers and the other cartel members are not as productive as the purchasers of

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their oil. They are using a significant proportion of their receipts to accumulate superfluous war machines, capital investments which will yield zero future production and income. They are building uneconomic petrochemical industries that in the future will extract unnecessary transportation costs to distant industrial markets. They are constructing huge airports with no traffic, universities with no students, and other outsized public and private works of dubious utility. This wasteful disposition of resources is surely of a far greater magnitude than the alleged energy gluttony of the West.

These considerations make clear why the nightmarish vision of an oil price/supply squeeze in the mid-1980's propounded by U.S. energy policy makers is so far off the mark. Their scenarios are premised on a return to moderate-to-high energy-demand growth rates and on low rates of non-OPEC supply expansion over the next decade. But the dynamics of the global energy predicament all run powerfully in the opposite direction.

Oil-demand growth rates are certain to remain low for the next decade, primarily because *economic* growth rates—the major determinant of demand—will remain far below historic levels. As was previously shown, the trend economic growth rate of the industrial world has settled to only 50 percent of its pre-1973 rate—a performance that will only worsen if the U.S. and other governments persist in attempting to push output back up the growth hill with monetary noodles.

The CIA forecast

In the face of this developing trend toward slower economic growth, the April 1977 CIA world oil forecast—which was the central justification for the Carter Administration's National Energy Plan—has already become almost ludicrous barely one year after its publication. Its forecast of huge world oil demand in 1985 (72 mm bbls./day compared to 50 million at present), rests in large part on an assumed 4.1 percent annual average economic growth rate for the OECD nations between 1976-85. Given the apparent outcome for the years through 1979—an OECD growth rate of just over half of this magnitude—it would require a return to sustained annual average growth of 5.2 percent beginning in 1980 to achieve the OECD gross national product levels the CIA has forecast for 1985. Such sustained rates of real growth were not achieved even during the halcyon days of the 1960's, and are far higher than the long-term postwar average.

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Under the best of conditions, the average OECD growth rate over the 1977-85 period is not likely to exceed 3.0 to 3.5 percent, most likely falling at the lower end of this range. Thus simply correcting for unrealistic economic-growth assumptions, the CIA forecast of OECD energy demand in 1985 should be reduced by 5 to 8 mm bbls./day oil-equivalent.

Drastically compounding the bias introduced by unjustifiably rosy economic-growth assumptions is the fact that the CIA study unaccountably assumes that the energy intensity per dollar of GNP will actually increase in much of the industrialized world during the next eight years. As is shown in the table below, the CIA forecast assumes GNP-energy demand growth elasticities higher than those recorded for Western Europe and Japan during 1960-73, a period of falling real energy prices. This premise defies both economic logic and the empirical evidence of the past four years. Although to some degree the very low elasticities shown for 1973-77 reflect one-time efficiency gains resulting from low-cost changes in both consumer habits and industrial production practices, the fact remains that, given the inherent lag in replacement or retrofit of much of the major energy-consuming capital stock of industrial societies, some substantial part of the demand response to quadrupled real energy prices has not yet occurred. Thus, while economic-growth/energy-demand elasticities for the industrialized world will undoubtedly rise in future years from the extremely low rates of the past four years, it is nearly a foregone conclusion that they will not revert to the pre-embargo levels assumed by the CIA. Indeed, other forecasts from a variety of government and industry sources have assumed an energy-demand elasticity of about .8 for the industrial economies as a whole. Making this correction reduces the CIA forecast for OECD demand in 1985 by another 3 million barrels per day oil-equivalent. Overall, the dubious assumptions underlying the CIA's OECD-demand forecast create a supposed requirement for some 8-11 million barrels per day of energy that is extremely unlikely to occur.

The dynamic forces at work in the world economy were ignored by the CIA study on the supply side of its forecast as well. A fundamental effect of the post-1973 oil price change is that petroleum products have lost their previously decisive comparative advantage over other fuel sources, particularly in the steam and heating sectors of industrial economies. Because of its cost advantage, oil prior to 1973 had been rapidly displacing other fuels. In 1950, for example, oil accounted for 32 percent of non-Communist world energy

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TABLE III. *GNP-Energy Demand-Growth Elasticities*[1]

AREA	1960-73	1973-77	ASSUMPTION IN CIA FORECAST
United States	1.00	.17	.76
Western Europe	1.04	.21	1.10
Japan	1.07	.04	1.14
OECD[2]	1.00	.15	.92

[1] Source: OECD, and British Petroleum, Ltd.
[2] Excludes Canada, Australia, and New Zealand.

supply; by 1965, the oil share had risen to 46 percent, and had topped 55 percent on the eve of the October crisis.

By 1977, however, the petroleum share of energy supply had fallen back to 52 percent. This decline is certain to continue in the future as coal and nuclear energy meet nearly 100 percent of incremental utility-baseload demand, as the expected rapid growth in worldwide natural-gas supply increasingly penetrates the industrial and home-heating sectors, and as developing nations exploit their abundant non-oil energy resources.

But the CIA study completely ignores this predictable market response to changing relative fuel prices and assumes that the pre-1973 pattern of oil displacing other fuels will continue on an accelerated basis. It projects a rise in the oil share of energy demand in industrial areas from 51 to 55 percent of total energy supplies by 1985, and makes the incredible assumption that the oil share of total energy supplies in the non-OPEC LDC's will rise from 59 percent in 1974 to more than 80 percent by 1985! By contrast, a recent country-by-country analysis of LDC energy development plans performed by the World Bank estimated a decline in the oil share of energy supplies to 47 percent by 1985 as a result of the rapid development of hydroelectric, nuclear (Brazil and Argentina), natural gas, and other non-oil indigenous resources in the developing countries. In short, by simply ignoring one of the most important supply consequences of the change in world oil prices, the CIA study exaggerates 1985 world demand by at least 10 mm bbls./day.

Finally, the CIA study assumes that non-OPEC world oil supplies, minus Communist-bloc transactions, will remain constant at only 22 mm bbls./day after 1980. This forecast largely reflects the "darkness at the end of the tunnel" theory so adamantly declaimed by Carter Administration spokesmen—such as Secretary Schlesinger —despite accumulating evidence and economic logic to the contrary.

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In this view, the world is being temporarily lulled by the one-time windfall of North Slope and North Sea supplies. After these new areas reach full production in the early 1980's, the world will again be clamoring at OPEC's door for incremental energy supplies. A fine theory, no doubt, if there were few new oil resources to be found outside of the Persian Gulf, and if the worldwide oil-supply elasticity were nearly zero.

But as has been shown, that just is not the case. A recent careful analysis of prospective worldwide oil production by the Petroleum Industry Research Foundation forecast that non-OPEC oil supplies will grow to 25 mm bbls./day by 1985, and to 30 mm bbls./day by 1990. Other analysts, such as Arnold Safer of the Irving Trust Company, project even higher levels of non-OPEC production.

The glaring defect of the CIA analysis, and indeed that of the entire genre of 1980's world-oil-crisis forecasts, is the implicit assumption that the effective cartelization of the Persian Gulf oil reserves has had primarily *political* effects. But the real effects have been *economic*.

The global economy has not and will not passively suffer a quadrupling of the price of its major fuel source. The cartel's decision to withhold the additional low-cost petroleum supplies demanded by the world economy in 1973 has unleashed powerful, pervasive adjustment processes in the form of reduced economic growth, lower energy intensities, and enhanced discovery and production of the non-Persian Gulf oil and non-oil energy resources distributed so abundantly around the planet. These processes are already moving the global economy toward a new equilibrium at which, for a substantial period of time, there is not likely to be incremental demand for OPEC oil beyond the 30 mm bbls./day level at which the cartel imposed a halt on production growth in 1973.

Given the manifold complexities and subtleties of the ongoing world-energy adjustment—and the fact that small changes in major variables, when compounded over several years, produce large differences in predicted outcomes—precise forecasting of global energy supply-and-demand conditions even a decade in advance is a risky, arrogant, and probably futile undertaking. Most of the pessimistic forecasts published during the last year or two, such as the CIA analysis, the MIT-WAES study, and the 1977 OECD report are already far off the mark in their forecasts for 1978-79—to say nothing of the years ahead. The reason is that despite the elegance of their estimating models, *the major assumptions employed in these studies wholly understimate the profound economic reverberations*

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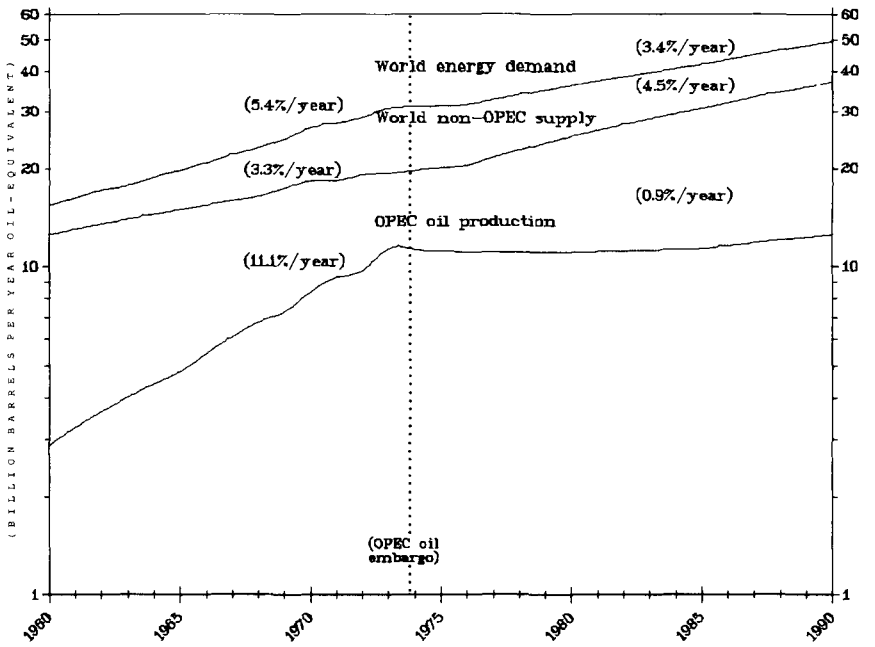
throughout the world economy since 1973. Ironically, in their effort to foretell how different the future may be, they assume that it will too closely resemble the past.

The figure below is not intended as a precise forecast, but simply as an illustration of how the 1973 oil-price change has drastically shifted the parameters of the global economy. The chart assumes that a world economy which grew at a rate of 5 percent under the best of conditions between 1960 and 1973—declining real energy prices, rising world trade and economic integration, relative currency and price stability, high rates of capital formation, and unrestrained use of air and water for depositing industrial wastes—will drop to a lower growth plateau (in the 3.5 to 4.0 percent range) during a period in which less conducive conditions for growth prevail. Combining this new growth rate with a modest decline in the pre-1973 GNP/energy demand growth elasticity (from about 1.0 to a ratio on the order of .8 to .9) yields an average energy-demand growth rate not exceeding 3.5 percent in the years ahead—and possibly considerably lower. To grasp the magnitude of this downward shift in the demand curve, consider that following the pre-1973 trend, energy demand by 1985 would have been nearly *16 billion barrels per year higher!* Thus, in just one decade, this lessening of

The Effects of the 1973 oil-price change



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demand will mean a reduction in annual energy consumption equal to one and one-half times the present proved reserves of the Alaskan North Slope.

Under the powerful economic pull of the $13 Persian Gulf price umbrella, non-OPEC world energy supplies will accelerate substantially from their average 3.3 percent growth rate for 1960-73 and the nearly zero rate of expansion that prevailed just prior to 1973. The comprehensive analysis by the Petroleum Industry Research Foundation suggests a growth rate on the order of 4.5 percent annually, reflecting revival of old province oil production, the rapid growth of new oil provinces, substantial increases in coal output, rapid expansion of world natural-gas and liquid-natural-gas supplies, and lesser increases in nuclear and hydroelectric power. As a result, the demand for Persian Gulf oil production is not likely to exceed its current self-imposed limits until the late 1980's. Even then, its present production capacity of 40 mm bbls./day is not likely to be fully utilized. (The chart assumes that OPEC production reaches 34 mm bbls./day by 1990, about 12 billion/year.)

The temporary balance—and after

These projections suggest that the global economy will prove itself sufficiently resilient to pacify the Persian Gulf cartel, but only at a substantial cost in terms of lower economic growth and reduced welfare for the people of the world. Yet there appears to be no alternative short of military intervention—a course fraught with even greater risk than that of reduced economic growth, given the relative parity of U.S./Soviet military strength and the tenuous geopolitical balance that now prevails in the Middle East. Most certainly, the decade-long equilibrium suggested above, in which the growth of non-OPEC energy supplies satisfies the reduced energy demands of the world economy, and in which the real price of energy remains relatively constant, *cannot be improved upon* by deliberate energy-policy actions on the part of the U.S. or any other government.

In general terms, to raise the non-OPEC supply curve appreciably above the level shown would require substantially accelerated development of synthetic fuels, low-grade fossil resources, geopressurized gas, and meaningful solar-based supplies. But all the available evidence indicates that the supply schedule for all of these alternatives ranges from $18 to $30 per barrel and up. The forced displacement of OPEC oil with these technologically feasible but pre-

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sently uneconomic resources would only worsen economic growth prospects. The supply cost to the economies utilizing them (regardless of how nominal accounting systems might be rigged via fiscal subsidies) would be even higher than that for OPEC oil.

Similarly, to further depress demand substantially by means of policy action would inevitably require substitution of capital, nonfuel minerals, technology, and labor at cost-equivalents greater than the world oil price, or else drastic government regulation and rationing of end-use consumption. Both courses of action would further shackle the growth capacities of the economies deploying them. In any event, the electorate is likely to resist strongly any such high-cost efforts.

It thus appears that OPEC will be assured of a market for its current level of production under the current terms of trade for a considerable period of time. In the decade ahead, OPEC will not disintegrate, as some students of past cartels have suggested, nor will it sit Colossus-like astride the globe, dictating the price and supply of world energy, as the conventional wisdom fears. Rather, its world role during the next decade is more likely to resemble that of a rather undramatic tollgate keeper, passively collecting rents from the constant stream of traffic that its earlier actions ensured.

There remains, of course, the possibility that OPEC will eschew the sedate life of a tollgate keeper and unwisely attempt to push the real oil price uphill against the incline of global economic forces. But this would require a substantial permanent cut from even current levels of production, because the supply and demand adjustment forces now in motion worldwide mean that even short-run elasticities are rather large. OPEC as a whole is therefore in a weak position to increase its collective revenues. A supply-reduction/price-increase maneuver would involve essentially a reallocation of revenue *within* the cartel. Yet the only producers in a position to even entertain the idea of such a charitable transfer of current income to fellow cartel members are Saudi Arabia and Kuwait.

Given the large burden of production restraint that they already bear and their grandiose development plans for the future, these two nations appear to have little incentive for further self-sacrifice. In order to maintain the real "take" which has prevailed since 1974, OPEC has had to cut production by more than 3 mm bbls./day from the 33 mm bbls./day level prevailing on the eve of the embargo. Although there have been fluctuations in the production of the individual cartel members due to seasonal peaks in world de-

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mand, temporary production, transportation bottlenecks, and the 1977 price split, Saudi Arabia and Kuwait have been forced to bear more than 70 percent of this net reduction. Consequently, their production is currently 20 percent below that of September 1973 and 37 percent below scheduled capacity for the early 1980's. The cut in production which would be required to raise the real OPEC "take" per barrel under existing and forseeable conditions would require these countries to lower output by another 2-3 mm bbls./day, or to less than 50 percent of current and planned capacity. Permanent production restraints of this magnitude for the sake of slightly enriching the Indonesians, Iranians, Nigerians, and Libyans do not seem to be in the cards, especially in light of Professor Theodore Moran's recent calculation that after 1980, Saudi Arabia and Kuwait will have to export in excess of 11 mm bbls./day of oil and gas in order to finance development programs now underway.

This emerging equilibrium will not last indefinitely, of course. Sooner or later, probably sometime in the early 1990's, the global conditions of 1973 will reemerge. The growth of non-OPEC energy supplies at $13 per barrel will begin to taper off, and the world economy will again come knocking at the Persian Gulf door for incremental supplies at the prevailing price. The only relevant question is whether the cartel will accomodate this increased demand amicably or precipitate a replay of 1973-76 and its wrenching impact on the world economy.

This matter essentially comes down to a question of what Saudi Arabia, Kuwait, and the United Arab Emirates will do, since by that time Iraq and Iran will have little capacity to increase production. One powerful fact of life will have changed since 1973, however. By 1990, a very substantial share of the national assets of these nations will have shifted from the secure depositories of nature-made petroleum reservoirs to the far more fragile membranes of the world economy. These countries will have produced nearly 73 billion barrels of oil and realized receipts of nearly one trillion dollars (1978 dollars) by the early 1990's. A substantial proportion of these proceeds will have been placed in direct overseas investment, international financial institutions, domestic petrochemical exporting industries, and an expensive liquid-natural-gas exporting infrastructure. To send the world economy through the wringer under these circumstances for the sake of forcing a large and rapid appreciation in the value of their remaining unproduced oil would require a willingness to run risks entirely absent in 1973: at worst, retaliatory expropriation of hundreds of billions in overseas assets, and at best,

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a dramatic shrinkage in the market value of both overseas and domestic assets under conditions of sustained worldwide recession. Stated another way, the cost of holding back oil in 1973 was small in proportion to the potential gain, but the cost in 1995 of shutting down multibillion-dollar petrochemical and liquid-natural-gas facilities, and suffering a major shrinkage of external assets, in order to extract another large capital gain on a far smaller oil-reserve inventory is quite another matter. In short, the pivotal Persian Gulf producers will have an overwhelming economic self-interest in producing oil at a sufficient rate to permit a gradual increase in the price of energy. The world economy, as it approaches the turn of the century, will then be positioned to move in an orderly manner toward development of the planet's still prodigious reserves of higher-cost fossil and non-fossil fuels.

The necessity of withdrawal

It is time to discard our medieval energy maps. There is no region filled with lurking dragons and other perils on the far side of the ocean. So rather than institute a politically imposed and bureaucratically managed and enforced regime of domestic-energy autarky, we need do little more than decontrol domestic energy prices, dismantle the energy bureaucracy, and allow the U.S. economy to equilibrate at the world level. Energy supply and demand will take care of itself, no less efficiently than were the commodity soybeans or Saran Wrap. And by thus encouraging full integration of the U.S. economy into the world marketplace's search for the least-cost-development sequence of our planet's prodigous remaining energy resources, we will produce the highest possible level of domestic economic growth and welfare.

Failure to do so will expose the American people to far greater dangers than any of the fictions emanating from our present energy bureaucrats. The most serious of these dangers is that we will squander massive amounts of economic resources on a continued futile and foolish quest for energy autarky. The economic pie will inevitably shrink as a result. And in the process we will saddle our economy and the American people with enormous amounts of political interference and bureaucratic management of their lives, so that the sphere of personal freedom will shrink as well.

It is evident that the quest for energy autarky has already become a haven for every manner of quack, charlatan, self-aggrandizing economic-interest group, bureaucratic power-seeker, social reformer,

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and intellectually anemic would-be policy maker that inhabits the American political system. By swathing them in a coat of legitimacy, the quest for autarky threatens to unleash no small amount of costly mischief in the years ahead.

The potential results of continuing this misguided quest range from the trivial to the dangerous. The 1978 energy bill empowers a corps of Federal yard inspectors to extinguish all decorative gas lighting by 1983. Silly. A United States Senator recently published an article in a serious journal calling for an immediate program of gasoline rationing. Dangerous. The House Energy Subcommittee nearly made it a criminal offense to sell one's own home after 1983 without certification by a Federal inspector that it meets certain thermal performance standards. Even more dangerous.

Energy autarky also provides a convenient fig leaf. In response to the recent long-overdue effort to force inland-barge operators to pay user fees to defray the multi-billion-dollar annual construction and maintenance costs of the waterways, barge operators advanced a defense that enabled them to resist successfully any major change in the status quo—barges save oil and should therefore receive continued taxpayer subsidies. But subsidized mule trains would save even more oil! Other old parasites have learned the new rhetoric, too. Just recently, Congress voted another billion-dollar annual subsidy to Amtrak on the grounds that despite huge financial losses, rail passenger service saves petroleum. It does. At a cost of $100 for each barrel saved.

In the name of oil-import reduction, an energy "pork barrel" is now emerging that will make the traditional public works and farm commodity programs look trivial in comparison. The Department of Energy was recently cajoled into financing a $500 million commercial-scale coal-liquification plant in the Congressional district of the Chairman of the House Commerce Committee. This plant will indeed increase the use of West Virginia coal. But the fuel oil produced will cost East Coast consumers (or the taxpayers) at least $20 per barrel—50 percent more than the alleged monopoly OPEC price. Moreover, this is only the proverbial camel's nose under the tent. The northern Great Plains delegations will push for subsidized coal-gasification plants, the Rocky Mountain delegation for shale plants, the New England delegation for bio-mass-conversion facilities, the Corn Belt for gasohol plants, the Sunbelt for solar credits and subsidies, the fiberglass industry for insulation subsidies, the oil and gas states for restoration of petroleum tax subsidies, the nuclear lobby for expanding subsidized development of uneconomic

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breeder reactors, and the "soft" technology people will lobby for "appropriate-scale" windmills. The effect of all of this "pork trading" will be to burden the Congress with decisions it has neither the competence nor need to make, and to burden the economy with multibillion-dollar excess costs and resource misallocations which will only further stifle our seriously declining prospects for economic growth.

The energy bureaucracy

The quest for autarky is also spawning a permanent energy bureaucracy whose 20,000 employees already command a budget in excess of $13 billion. Were this rapidly expanding bureaucratic empire devoted solely to useless but innocuous tasks (such as carrying on education campaigns that show the American homeowner he can cut his fuel bill by adding insulation or adjusting his furnace, or supporting experiments to encourage the re-use of discarded motor oil) there would be no grave danger. But bureaucracies erected to solve non-existent problems have a perverse way of ensuring that such problems actually develop. In any event, the Department of Energy is making a valiant effort.

The Department's "entitlement" regulations have so distorted the economic signalling process that they nearly caused 300,000 barrels per day of West Coast crude oil selling at $4.50 per barrel to be shut-in in favor of increased imports of Indonesian crude at $15. Currently pending regulations would require producers who use crude oil on lease sites to generate steam for secondary-recovery operations to pay full "entitlements" on this oil. Including such producers in this complicated government-imposed production-quota system would mean requiring them to pay $12 per barrel to stimulate additional production of oil for which they may legally charge only $5.40—an excellent way to discourage production of domestic oil. DOE's coal-conversion program has hardly added a ton of incremental consumption, but it has generated scores of plant-by-plant coal-conversion hearings that have created a boom market for Washington consultants while paralyzing the investment climate for the firms involved. DOE regulators are even disrupting the home-appliance industry. They recently ordered firms to make energy-efficiency improvements in automatic clothes dryers that require a sealed temperature and moisture-controlled chamber in order to test the gains. Should some benighted consumer operate these DOE-approved products in a damp basement or cold pantry, it is

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far from clear that the postulated energy savings will be realized. That dryers will cost substantially more is the only certainty.

The complete list of supply-dampening, cost-increasing regulatory distortions is simply staggering. And the transactions-cost of compliance by everyone from Exxon to the corner gas station balloons the resulting economic waste still further. The more the Department is empowered to manage the domestic energy system on the premise of energy shortage and autarky, the worse this burden will become.

The other great danger is that we will continue to premise macroeconomic policy on the faulty notion that oil imports are the source of all our economic woes—the balance-of-payments hemorrhage, the dollar depreciation, and the resulting rampant domestic inflation. But it is not the *volume of imports* that is the culprit. The culprit is the quantum leap in the real cost of energy, which is retarding the growth capacity of the U.S. and other industrial nations. Continued monetary profligacy will only exacerbate this problem by seriously impairing the global monetary and trading system on which we depend.

The *policy* response that we do need in this post-embargo era, therefore, is not an energy policy aimed at the artificial manipulation of supply and demand, but *an economic policy aimed at compensating for the reduced growth potential of the economy.* In practical terms this translates into a reduced government claim on national income, and tax policies and other measures oriented toward increasing the supply of non-energy economic inputs: savings, risk capital, entrepreneurial creativity, technological advance, and labor. The only alternative is a permanent reduction in the rate of economic growth, and a substantial slowing in the rise of our standard of living.

There will remain in the minds of some, of course, an exaggerated notion of the security threat implicit in reliance on the world market for energy. But once all of the economic mythology is stripped away —price extortion, the high cost of imports, and so on—the actual geopolitical dangers are of a much more limited nature. In essence, they require only two policies—strategic reserves and strategic forces. Both are wholly separable from the enterprise now called national energy policy.

Strategic-reserve storage can readily handle the diminishing threat of a temporary politically motivated boycott emanating from one or a few OPEC producers. Given the fact that all OPEC members except the three large Persian Gulf producers (Saudi Arabia, Kuwait, and the UAE) are or will be shortly in a deficit balance-of-

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payments position, the probability of such action has become increasingly remote. Even the three Gulf producers cannot readily control their oil after it leaves their hands, as was shown during the 1973 embargo under far more favorable conditions. Therefore, the prospect that they would even attempt to impose a selective boycott for purely political ends is minimal—given downstream leakage, increased oil-production potential elsewhere, both within and without the cartel, and strategic storage in target nations. In any case, ample strategic storage is cheap insurance. Whenever the period of perceived contingency ends, the oil will be worth far more than when it was placed in reserve.

The only serious security threat is the prospect of Soviet intervention in the Gulf, either by direct military incursion or via client regimes. The fact is that the remaining oil and gas resources of the Persian Gulf have a present market value of some $16 trillion. The U.S. can no more afford to have these fall into Soviet hands than it can afford to lose Western Europe. The rate of current Persian Gulf production or the level of U.S. supply dependence makes absolutely no difference to the strategic importance of that region of the world. Were the U.S. to somehow achieve 100 percent energy independence, it would still have to counter overt Soviet aggression in the Persian Gulf with strategic power. To permit more than a trillion barrels of the planet's only remaining cheap-hydrocarbon resources to be annexed by the Soviet Union would pave the way for its speedy military and political domination of the world. Thus the *real* threat cannot be ameliorated with an NEP-type energy policy, or by former defense officials turned energy bureaucrats. The task of meeting that threat has belonged to the defense establishment all along.

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Fact, fancy, and organized crime

PETER REUTER & JONATHAN B. RUBINSTEIN

ORGANIZED crime has become firmly established on the agenda of national problems requiring Federal action for control. Since it was made a national issue by the Kefauver Committee's successful exploitation of the latent power of the emerging television networks, every President has been required to make a statement deploring the growth of organized crime and outlining a program to eliminate it. As an issue, its rise to prominence has not been slowed by the failure of any legislative or administrative body to define adequately what it is, or who is involved. Lacking such a definition, it is obviously difficult to determine whether the phenomenon is indeed growing or declining—but this has not prevented the continued, and successful, demand for increased authority and resources to fight it. The evident lack of any strategy behind these demands also has had a curiously small impact. Countless government reports are filled with "estimates" of the degree to which organized crime controls lucrative illegal activities, whose monopoly profits are then used to take over legitimate industries.

These analytic failures have had serious consequences. Unlike most bureaucratic puffery which results in inflated and wasteful expenditures, the threats posed by organized crime have been repeatedly

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cited to justify a significant expansion of police powers. Legal wiretapping entered domestic life in order more effectively to pursue organized crime figures; for the same reason, immunity and conspiracy statutes have been greatly expanded, as have been the powers of investigative grand juries. Citing the threats of organized crime to legitimate business, governments are creating numerous licensing and regulatory agencies which permit public officials to meddle with all kinds of business activity. This threat has also been used to justify the creation of state-owned liquor and gambling monopolies, monopolies which would otherwise be deplored.

Each agency has its own definition, ranging from Frank Hogan's famous assertion that "organized crime is two or more persons engaged in criminal activity" to the FBI's careful (we have traced it through seven versions) and meaningless potpourri: "the sum aggregate of the more lucrative, continuing types of racketeering activities, involving some sort of formalized structure and generally requiring graft or corruption to conduct its operations without interference."

But despite strong differences about specifics, there is a consensus about the general characteristics of this social threat. Organized crime is viewed as a set of stable, hierarchically organized gangs which, through violence or its credible threat, have acquired monopoly control of certain major illegal markets. This control has produced enormous profits, which have been used to bribe public officials, thus further protecting the monopolies. These funds have also been invested in acquiring legitimate businesses in which the racketeers continue to use extortion and threats to minimize competition.

The "lifeline" theory

Ever since the Kefauver Committee asserted that racketeers from the larger cities had established a national monopoly in horse racing information, which gave them control over illegal gambling in America, gambling has been viewed as the fountainhead of criminal capital. Every government probe has come to the same conclusion. The absence of any concrete information did not stop the New York State Investigations Commission from concluding that the infamous meeting in November 1957 in Apalachin, New York, was a conclave of gambling operators. Joe Valachi, a long-time government informant and former numbers controller from Harlem, provided the McClellan Committee with "living proof" that the Mafia or La Cosa

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Nostra, as he styled it, existed and that gambling and loansharking were the sources of its capital. This notion was raised to the level of orthodoxy by President Johnson's Crime Commission (1967), which estimated that organized crime netted a minimum of $7 billion annually from illegal gambling, a one-third profit from one of the lower estimates of total wagering made available to the Commission. In 1969 President Nixon asserted, using a confused metaphor, that "gambling income is the lifeline of organized crime. If we can cut it or constrict it, we will be striking close to the heart." Congress responded in 1970 by passing the Organized Crime Control Act, which enshrined this notion in statute. In 1974 the Department of Justice summarized government views of illegal gambling:

> It is the unanimous conclusion of the President, the Congress, and law enforcement officials that illegal organized gambling is the largest single source of revenue for organized crime. . . . [It] provides the initial investment for narcotic trafficking, hijacking operations, prostitution rings, and loan-shark schemes.

These are not just beliefs espoused by agencies and politicians in hearings or when they are asking for money. There is recent evidence that the police themselves hold these beliefs as firmly as Presidents and District Attorneys. In a 1976 survey of police departments throughout the country, some 73 percent of police agreed with the statement that "profits from illegal gambling operations are the main source of income for organized crime."

The belief in the dominance of stable criminal gangs and the centrality of gambling in their continuing control of the rackets extends beyond law enforcement circles. In addition to being continually restated in the daily press, which is almost completely dependent upon police sources for its crime news, these views are also espoused in academic circles—both by those friendly to the views of the police and those who argue for the revocation of prohibitory legislation on gambling, prostitution, and other so-called victimless crimes. Donald Cressey, who is the most respectable academic advocate of the official position, argued in his book *Theft of A Nation* that "the suppliers of illicit goods and services . . . accumulate vast wealth which can be used to attain even wider monopolies on illicit activities, and on legal businesses as well." Concerning illegal gambling, Cressey asserted, "the profits are huge enough to make understandable the fact that any given member of La Cosa Nostra is more likely to be a millionaire than not." Herbert Packer, whose book *The Limits of the Criminal Sanction* is the most widely

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quoted argument for decriminalization, made essentially the same argument as Cressey:

> In gross financial terms, the laws against gambling represent our most generous subsidy to organized crime. . . . By responding to the economic logic of the situation, criminal organizations have arisen that take enormous monopoly profits out of the gambling business. These monopoly profits then become available to sustain the activities of the criminal organization on a wide variety of fronts, including the penetration of legitimate and quasi-legitimate economic markets.

Many such statements from respectable academics could be found, but regardless of the policies they are arguing for, they all share one important feature: They all make assertions about the nature and organization of gambling based entirely on statements from the police, or on legislative reports that are themselves based on police statements.

A systematic analysis

For the last several years, we have been studying the structure and operation of the gambling rackets in metropolitan New York since 1965. With the cooperation of the New York City Police Department and several other departments in the area, as well as local prosecutors' offices, we have examined the financial records of many gambling operations raided by the police. We have been able to obtain numerous official records on gambling operations and investigations, some wiretap transcripts, and also information drawn from lengthy interviews with police gambling specialists and informants active in bookmaking and numbers. Enforcement agencies certainly have more access to all of these sources, but we are certain that no agency has ever analyzed the gambling rackets by the systematic use of such data.

The traditional account asserts that illegal gambling is dominated by a cartel of criminal gangs who are involved in many kinds of racketeering. Their domination of the gambling rackets is maintained by the use of violence and coercion when necessary, but whenever possible they use their corrupt relationships with local officials to make certain that independent operators do not enter the market. "Organized crime brooks no opposition," is a common refrain. The dominant position of these gangs allows them to extract monopoly profits from illegal gambling, further enhanced by the predatory pursuit of gambling debts by mob-licensed loansharks.

The evidence we have obtained makes it clear that illegal gam-

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bling in New York does not conform to this grim account. Our research has focused on bookmaking and numbers, the two most important forms of illegal gambling. These are, in fact, two quite distinct trades. They have entirely different operating routines and problems. Their customers come from different segments of society, in terms of both income and ethnic background. Given these fundamental differences, it is not surprising that there are few people who are active in both businesses. Most law and enforcement policy merges these forms of gambling in ways that can be quite misleading, although there is little more relationship between bookmaking and numbers than there is between the insurance industry and supermarkets.

The evidence we have obtained for each of these activities is sharply in conflict with the standard account. We begin with bookmaking. Most bookmakers are just that—bookmakers; perhaps not the worthiest of citizens but certainly not the terrifying mobsters of whom we are told. They have few involvements in other criminal activities such as narcotics trafficking or fencing. It is true that they are involved with loansharks—but as customers themselves, rather than as providers of customers. There is very little use of violence in bookmaking, either for purposes of restricting competition or for disciplining of recalcitrant customers. Given the extent to which bookmakers extend short-term credit, often totaling thousands of dollars for an individual customer, this is quite a striking finding indeed.

Moreover, there are many autonomous bookmaking organizations, all of them small when compared to legitimate firms. The very largest operations, of which there are perhaps five in New York, handle about $500,000 per week in bets. Such an operation would employ only five clerks to record the bets, although it will have as many as 50 commission agents, known as "sheetwriters," directing bets to the central office. The sheetwriters, however, are not employees and may work for several operations simultaneously. There are at least 50 bookmaking operations in the city and near suburbs, each with a high degree of autonomy. Many of them are quite ephemeral. Narrow profit margins, the high cost of credit, difficulty in collecting debts, law enforcement, and poor entrepreneurial judgment (which is characteristic of many bookmakers), all combine to ensure that most of even the largest operations have relatively short lifetimes, although most individual bookmakers stay in the business for many years.

There is nothing to suggest that bookmakers are part of a coercive

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cartel, and considerable evidence suggests that they are involved in a risky and highly competitive business. We are certain that there is no territoriality or control of entry into the business. Occasional efforts to raise prices have met with no success. Corruption is a minor and episodic feature now, in contrast to the situation prevailing in the 1950's at the time of the Kefauver Committee. While there is a lot of betting between New York and New Jersey, there is nothing to suggest a nationwide "layoff" network; New York bookmakers do not have regular dealings with bettors or bookmakers in other parts of the country.

The "sheetwriter"

Perhaps the easiest way to understand the extent and origins of the fluid nature of this market is through an examination of the role of the sheetwriter. In many instances it is he who brings the customer to the bookmaker in the first place. Because the bets are all telephone transactions, the bettor has very little information about the bookmaker. Generally, all he has is a telephone number, which is changed from time to time. This anonymity provides important security for the bookmaker and his clerks. The bookmaker rarely meets his customers, since it is the sheetwriter who moves money between them.

However, in the current system, it is also true that the customers are generally the "property" of the sheetwriter and not the bookmaker. The sheetwriter has the right, in most operations and under most circumstances, to move his customers to another bookmaker. It is a trivial matter for him to do so; all he has to do is to tell his customers to call a different number. Sheetwriters, in fact, frequently make these shifts and it is extremely rare for a bookmaker to take any effective retaliation against this, even though the shifts always cost him money.

Most shifting of customers by a sheetwriter occurs when he owes a bookmaker money. The sheetwriter is an uninvested partner with the bookmaker, sharing profits and losses. When the sheetwriter's customers, as a group, win money from the bookmaker, half of those winnings are charged against the sheetwriter, although he does not have to provide any of the money paid to the customers. Instead, this "red figure," as it is called, is charged against his future earnings, which are generally 50 percent of what his customers lose. When the red figure becomes large, the sheetwriter has little prospect of receiving any income from the bookmaker for some

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weeks. His response to this is to shift his customers to another bookmaker with whom he has no red figure.

We want to stress that this is not a hypothetical problem. The reports of informants indicate that sheetwriters frequently move when they have accumulated large red figures. Financial records show that these debts owed to the bookmaker do get to be substantial; a red figure of $20,000 is not extraordinary. Indeed, the problem has become acute enough that at least two bookmakers, faced by the loss of sheetwriters with substantial red figures, have offered those particular sheetwriters alternative financial arrangements which give the writer a share of the total wagering, eliminating the red figure.

We take this arrangement to be a critical indicator of the lack of control by any individual or group in the bookmaking market in New York. No cartel would permit agents, such as sheetwriters, to play off one member against another. Indeed, while we find little centralization in the numbers business, it is apparently sufficiently organized so that the controller, who is in that business the equivalent of the sheetwriter, cannot shift to another operation while he owes money to his original employer.

Another important indication of the lack of coordinated control in bookmaking is the failure of occasional efforts to raise prices. The standard terms for betting football and basketball in New York involve the player risking $11 to win $10, giving an expected return to the bookmaker of 4.4 percent of the money wagered.[1] At the beginning of each football season some bookmakers try to persuade their colleagues to change the terms to six-for-five. These repeated efforts have never been successful, and the 11-for-10 bet has persisted for over a decade, despite a high rate of bankruptcy among bookmakers.

Though the expected margin of profit is 4.4 percent, records indicate that the actual gross margin is less than 1 percent. There are at least four factors that explain this difference. First, the bookmaker must share profits with his sheetwriters, who probably account for 80 percent of his wagering in a large operation. Second, sheetwriters may leave the operation when it has suffered losses through their accounts. Third, baseball betting, which may total nearly as much as football betting, works on a more complicated formula yielding an expected margin of less than 3 percent even

[1] If a bookmaker takes in one bet on each side of a game, he receives $22 in wagers. The winner receives $21, his $11 wager plus $10 in winnings, leaving the bookmaker with a $1 profit.

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before the sheetwriters take their share. Finally, cheating by clerks is an endemic problem that has serious consequences for the bookmakers; clerks also make accounting errors which are not caught by any auditing system, and customers only point out errors that favor the bookmaker at their expense.

The fact that cheating is widely acknowledged but goes largely unpunished is frankly puzzling. It is certainly incompatible with the image of bookmakers who rule their organization and customers by the credible threat of violence. In a recent court case in New York, it emerged during pre-trial hearings that the tapes from a wiretap showed the clerks cheating their employer of some hundreds of thousands of dollars. In order to ensure that the tapes were played and that the bookmaker found out how much money was involved, he pleaded not guilty and ended up with a long jail sentence; if he had taken a guilty plea he would have received a shorter sentence, but he would not have found out how much money the clerks had taken. At this writing, some three years later, the clerks are still alive, although they have spent much of the intervening time in jail. And this particular bookmaker has a long-standing reputation for command of violence.

A fragmented market

Why, in fact, is this market fragmented? There are, after all, none of the usual legal constraints against cartel formation or domination through violence. We believe that a key element is the anonymity of everyone in the business. Because all the betting is done by telephone, often through call-back services that prevent the bettor from even knowing the telephone number of the operation, there is no way of determining who is in the business or the scale of their activities. Even bookmakers who command substantial resources and have ready access to "muscle," and there are several in the New York market, cannot prevent others from entering the business or control the terms on which they do business. Because members would have an interest in preserving anonymity, a bookmakers' cartel would have little more success in controlling the market.

This anonymity also bears directly on the role of police corruption. It is undoubtedly true that, at the time of the Kefauver Committee, bookmakers in New York systematically purchased police protection. At that time, though, they were primarily in the business of providing locations to which bettors came mainly to make horse bets; it was only at those "wire rooms" or "pool rooms" that bettors

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could hear the results of the races more or less immediately. With the shift to sports betting, an activity whose result can be heard over the radio, telephone betting became the dominant mode. The same difficulty facing a potential monopolist also hinders the corrupt policeman. It is not easy for him to locate the bookmakers for the purpose of extortion, and the bookmakers can move easily after the first contact. Bookmakers are still eager to purchase some degree of police cooperation, mainly for insurance (perhaps prior warning of a raid or a wiretap) we believe, but the relationships have become few and strained compared to the situation in earlier decades.

We have also been struck by the lack of violence and coercion in bookmaking.[2] It is a business that depends in large part on short-term credit. The bookmaker usually settles with his customers on a weekly basis in most operations, and the customer may owe several thousand dollars by that time. Yet it is extremely rare for violence to be used to collect that money. In case of any problem in making payment, the bookmaker will generally agree to some partial settlement and limit the betting of the customer until he pays the remainder of his debt. We have only isolated instances of a bookmaker turning over a delinquent account to a loanshark for collection. The bookmaker knows that an angry or frightened customer is the greatest threat to his anonymity and security.

Loansharks are, nonetheless, important to the functioning of the bookmaking business. They frequently provide capital for a bookmaker who is in financial difficulty. Since bookmakers are generally poor businessmen who often assume large risks voluntarily (being bettors themselves at heart), it is not uncommon for them to seek large sums at short notice, $50,000 being the upper end of the range of these loans. Only loansharks can supply this money. We are not in a position to estimate the importance of bookmakers' borrowing to the loansharking industry, but it is probable that a substantial segment of the industry specializes in lending to bookmakers.

The connection between loansharking and bookmaking is critical. Loansharking may well be an activity dominated by organized crime. Certainly a loanshark who does not have a well-established reputation for violence is at considerable risk from customers who believe they can defraud him; at a minimum he will have high collection costs. If it turns out that bookmakers account for a large

[2] To some extent this may be explained by the media's fascination with violence and organized crime. Many bookmaking customers, like citizens generally, probably have been convinced by the nightly news of the dire consequences of failing to meet their bookmaker's demands.

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share of loanshark borrowing, then it will mean that bookmaking is important to organized crime for reasons almost exactly contrary to the conventional descriptions offered of the relationship between gambling and organized crime. In fact, this suggests that effective enforcement against bookmakers, by creating additional financial difficulties, may increase the market for loansharks—scarcely a blow to organized crime.

Whatever the exact relationship between bookmakers and loansharks, the police appear to be unaware of its importance. We have found no official documents that discuss the financing of gambling. Although the police have assembled much information about many bookmakers, they have almost no information about their financing. It is always assumed in law enforcement circles that gambling is the source of capital for other illegal activities, but our evidence indicates that the flow is in the other direction.

The numbers business

The numbers business, which we have also studied in great detail, is only slightly closer to the standard account of organized crime monopoly. Important racketeers, persons who are known to be involved in a variety of criminal activities and who have recognized status in the underworld, have a more direct involvement in the numbers than in bookmaking, though they are rarely involved in an operating capacity. Corruption also appears to be a more central feature, because numbers is still largely an activity involving face-to-face transactions between the customer and the seller. There is also some evidence of violence in the disciplining of sales agents, when, for example, they are believed to be withholding bets from the numbers "bank."

But it is important not to exaggerate these features. Although efforts have been made from time to time to establish a cartel, they have never had enduring success. Territoriality is slight. There are numbers banks with outlets in all five boroughs of the city. It is common for a single neighborhood to have several outlets, each representing a different bank. A "controller"—the intermediary between the collectors (who have almost exclusive access to customers) and the numbers "bank"—may set up his own bank with little threat of retaliation. Controllers also frequently maintain substantial interest-free balances, which the numbers banker has difficulty collecting.

There is considerably more stability among numbers banks than

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among bookmaking operations. It is not uncommon to find banks operating for a decade or longer. They also appear to generate larger and more stable flows of profits than bookmaking, but again far less than alleged in official accounts. We have found in New York that a bank doing $10 million annually is relatively large. On the average, we find that a gross profit of 4 percent can be reasonably expected—but from this must be deducted the not insignificant operating expenses of the bank.

It is useful to compare the retailing of illegal numbers in New York with the legal state monopolies that provide the same service in New Jersey and five other states. The state monopolies offer their retailers less than 10 percent of the wagers they process; the illegal operators in New York pay 25 percent and sometimes as much as 30 percent to their retailers. Similarly, the agents, who act in the same capacity as controllers, receive only about 2 percent from the state monopolies, while in New York controllers receive 10 percent of the wagers. The state monopolies restrict the number of outlets, so as to guarantee their agents total wagers of about $5,000 per week. In the illegal system retailers frequently handle less than $500 per week. The inability of numbers banks to coordinate their actions and to prevent new banks from entering or new retailers from starting with some existing bank has led to quite modest returns for the bank when compared to the cartel possibilities.

We can supplement our data in New York with some observations on numbers in the Miami area. Here we also find a large number of small banks, each bidding for the services of retailers and controllers. The recent influx of Cubans has led to a transfer in the control of banks, formerly operating in predominantly black areas but owned by native whites, and an increase in the share of wagering going to the retailers. In this case, despite the presence in Miami of major Italian and Jewish racketeers with a considerable interest in loansharking and narcotics, the Cuban numbers operators appear to have no relationship with any outside groups, though some individuals among them are involved in the drug business. Again, there is general agreement among our informants that violence and coercion are an unimportant part of the business.

The reforms instituted by the New York City Police Department after the Knapp Commission appear to have had a salutary effect on corruption. While there is undoubtedly still some corruption of street police, the systematic "pads," often involving quite senior commanders, appear to have come to an end. This reduction in corruption, which was accomplished essentially by ending aggressive

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enforcement, has been accompanied by a loosening up of the market. More controllers are branching out on their own, no longer needing to worry about arranging for protection from police they could not reach. The payout rate is rising, suggesting a growth in competition and a reduction in profits. Thus the reduction of enforcement has had three salutary effects. It has reduced police corruption, which may, in the long run, reduce overall access to police by criminals; it has reduced the concentration of the market (although it was not great prior to the reforms); and it has brought a better price to the customer.

It is possible that our findings apply only to New York. It is, after all, a larger metropolitan market than any other and anonymity is easier to achieve in such a large market than in areas served by only a few bookmakers. At this stage we have too little information about other areas, apart from Miami, to make any definite statement, but all of the scattered indications are consistent with our findings in New York. We note also that the Department of Justice estimated in 1974 that organized crime controlled over 50 percent of illegal gambling in New York City, compared to 42 percent in the nation as a whole. We are making our case in a city where the belief in organized crime's control of gambling is well-established.

Convenient errors

If our description of illegal gambling in New York is accurate and holds for other cities, then we must explain the rise and continued hold of the conventional wisdom, which has become the central doctrine of official statements on organized crime. It is not an easy task, for we have used no information or techniques that are not available to police agencies. Indeed, our analytic approach has been almost embarrassingly direct.

Two factors explain existing beliefs. First, these beliefs are bureaucratically and politically convenient. Second, they are produced by agencies whose unusually striking deficiencies in analytic work have gone largely unnoticed because, for a variety of reasons, they have been able to protect themselves from outside scrutiny with great success.

The police are the dominant source of information about organized crime in America. They collect almost all of the available information, do their own analyses of it, and then make the results available to the public and other government agencies. Government statements and legislative committee reports are mainly restatements

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of police views. The Kefauver Committee undertook no independent investigation or analysis; instead it provided a forum for information and theories advanced by local police and former FBI agents. The McClellan Committee did not "find" Joe Valachi; he was made available to them by the FBI on orders from the Attorney General. Valachi had been a Federal informant for several years and his testimony was the product of extensive debriefing by FBI agents. The President's Crime Commission acknowledged the lack of independent expertise available to it on organized crime.

The difficulty the government has had in obtaining accurate information on the reserves of energy-producing companies in the wake of the 1973 oil boycott should serve as a sober reminder of how difficult it is to collect accurate information even from legitimate organizations operating in a highly regulated environment. The challenges are immeasurably greater in collecting information about people who are consciously involved in illegal activities. The disproportionately large collections of photographs, tag numbers, and automobile descriptions in police files seem like an example of wasted effort until one realizes how difficult it is even to identify participants accurately. People on the street are frequently known only by nicknames, and often they use more than one.

One of our informants recalls being shown a surveillance photo of a suspect in a gambling investigation and being given a nickname for this person by an undercover police officer. On the basis of the nickname, which was familiar to him, he identified the suspect as a particular gambler. The police followed this person for several days before they learned that he was indeed a gambler, but not the person they thought they were following. This is not an uncommon occurrence nor is it evidence of the incompetence of the police. Rather it should be taken as a timely reminder of the difficulties involved in determining who is doing what, when the only sources of information are distant surveillances by people who are not familiar with the environment in which they are operating, informants who have no incentive to be accurate but considerable reason to provide information, and overheard snatches of converation whose meanings are frequently unclear.

The police are the only agents who have the authority and the necessary skills to collect information in this hostile environment. It would be very difficult for researchers to do a study of illegal gambling without the information obtained from police sources. In many areas of the city, people are simply unwilling to discuss these matters with strangers; other areas are too dangerous to

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wander about in. For some time we have been assembling information on the payout rate paid by numbers banks in various parts of New York and can attest to the difficulty of obtaining accurate, verified accounts from informants even about so simple a matter. It is striking, however, that not only are the police the exclusive suppliers of information to the entire system, they are also sovereign in interpreting what they collect.

Prosecutors are essentially passive receivers of the product of police work. They have almost no independent capacity to collect their own intelligence or to evaluate what the police are providing them. In New York City, under District Attorney Frank Hogan, any information about illegal gambling received by his office was turned over to the police department for investigation. He ordered his own investigators to do no work connected with gambling or narcotics. This division of labor between the police and their lawyers exists at Federal, state, and local levels of the criminal justice system. In responding to criticism over his unwillingness to allow the FBI to work under the direction of Justice Department lawyers in Strike Forces, J. Edgar Hoover wrote to an inquiring Congressman, "... as a general rule, we have found it to be true that greater efficiency results and responsibilities become more clearly established when investigators investigate and prosecutors prosecute."

This rigid separation of functions between police and prosecutors is another example of the deference for jurisdictional boundaries that is observable throughout the criminal justice system and is one of its defining characteristics. It is as common among units of the same organization as it is among separate agencies. One reason, certainly, why police and prosecutors are convinced that territoriality is an important characteristic of racketeering is because it is a defining feature of their own work routines. (As a matter of fact, we have found little evidence of territorial control of illegal gambling except where it is protected by the police.) In the processing of routine criminal cases, which is the majority of work done by prosecutors' offices, this separation is understandable; but in the area of organized crime enforcement it means that the police control the prosecutors' access to the critical facts on which decisions are made.

The police monopoly over information places prosecutors at a severe disadvantage in any discussion about tactics and strategy. The police are reluctant to tell a prosecutor very much about their sources of information, because he will most likely soon leave to enter private practice where he may defend people they are arrest-

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ing. This is symptomatic of more fundamental differences between the police and their lawyers. The district attorney is elected, (that is, is inherently political) while the police view themselves as civil servants. Prosecutors are much better educated than police and have marketable skills, which means that most of them do enter private life after only a few years in public service, while the police, lacking alternative opportunities, tend to remain in their department for many years. The police, uniquely wedded to government, consider themselves to be more trustworthy. It is also true that the senior police involved in rackets investigations have many years of experience while most of the attorneys they deal with are relatively junior. The potential for conflict between them is substantial, and it is largely avoided by prosecutors deferring to the police in deciding how investigations are conducted.

Police sovereignty

The police are not unique in resisting the intrusion of experts into their domain, but they have been more successful than any other bureaucracy. The military resisted civilian control over their operations until the technological base, from which military doctrine and strategy were derived, compelled the inclusion of people in the decision-making process who possessed skills not available within the traditional military system. Although many military bureaucrats have resisted the expansion of civilian influences, the educational requirements of the officer corps have steadily expanded to the point where officers are routinely sent to traditional universities for higher degrees.

Using arguments about the need to keep from the underworld knowledge of informants and law-enforcement techniques, the police have managed to keep out everyone else as well. And since the police are ruled by a rigid civil service system which guarantees that anyone who has climbed high on the promotion ladder will be reluctant to express dissenting views, each force is insulated against external influences. They resist civilian intrusions even into nonsensitive areas such as communications control. This insularity makes it very difficult to have a discussion about organized crime, since the police can rightly claim they have most of the facts. Most discussions end up sounding like debates about UFO's: Those who have seen one are arrayed on one side, and all of those who have never seen one but dispute the validity or interpretation of the observations are on the other.

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We know of no other area of public life where the sovereignty of the bureaucracy remains so strong. Like the rest of us, the police generalize from their own experience. Their policies are based primarily on the unanalyzed sum of their experiences, since even the few specialists who have been introduced to the policy-making process in recent years are rarely permitted to participate in the information-collection process, but are again passive recipients of what the street police bring them. A recent national survey of Rackets Bureaus by the Cornell Institute on Organized Crime found only one state or local agency among those sampled in their survey which was making an effort to analyze the information collected by its agents. The Institute concluded, "Put simply, intelligence activity continues essentially as a collection effort." Even the FBI, whose agents are much better educated than are the local police, has resisted outside specialists and sought to train its own people.

Gambling again provides an excellent example of the analytical limitations of the law enforcement community, even at the highest levels of government. The Department of Justice recognized that, since it frequently asserted that organized crime derived its major income from illegal gambling, it would be useful to have some notion of the absolute and relative scale of illegal gambling revenues. The President's Crime Commission, while endorsing the centrality of gambling, noted that estimates of revenues ranged from $7 to $50 billion per annum, and that, in 1967, there were no claims that any systematic study had been done.

In 1974, in testimony before the National Gambling Commission, the Justice Department announced that it had developed an estimate of the total volume of illegal gambling, which in 1973 lay somewhere between $29 and $39 billion. Details of the method used for producing the estimate were not made available for another two years, and even then in a most sketchy form. We cannot go through all the steps of the estimating procedure, but shall describe two of the critical steps which suggest that the estimate was exceptionally crude and designed to guarantee a very large result.

The basic data source was the wagering discovered by the Federal Strike Forces against Organized Crime during their program of intensive gambling enforcement in 1971 and 1972, known as Operation Anvil. It was assumed that all Strike Forces detected the same proportion of illegal wagering as had the Strike Force in New York City. No justification was offered for that assumption, which was unnecessary although it simplified the procedure. In fact, there is

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reason to believe that the Department had a higher sampling fraction in New York than elsewhere. Operation Anvil had been built around wiretapping, and the rate of surveillances per capita was higher in New York than in other major cities. This fact is by no means conclusive, but it is the only available piece of evidence on the reasonableness of the assumption—and it suggests an upward bias.

More important, the estimate required some measure of the percentage of illegal gambling sampled in each city by Operation Anvil. For this the Department used figures from a survey of gambling in New York carried out by the Oliver Quayle Company in 1973. The technique may be described as either ingenious or arcane.

The Quayle survey

Quayle found that, among *sports bettors who bet on horses*, betting with bookies accounted for 37.8 percent of their total off-track horse betting. The Department of Justice assumed that this was true for all persons who bet on horses, so that bookies accounted for 37.8 percent of all off-track horse betting. Since they had available the figures from the New York Off-Track Betting Corporation on its "handle," they could use this assumption to estimate total horse betting with bookies. They compared this figure with the total volume of illegal horse betting they had detected in New York through Anvil, and assumed that the same sampling fraction held for sports and numbers as well, in New York and all other cities.

There are many problems with this procedure. Most important is that it is unreasonable to assume that all horse bettors use bookmakers to the same extent as horse bettors who are also sports bettors. Because sports betting is the main service of bookmakers, any sports bettor who wants to bet on horses with a bookie is likely to have already established contact with one. Hence we might more reasonably expect that pure horse bettors—and the Quayle figures indicate that they account for most of the horse betting at the track and with OTB—do a smaller percentage of their off-track betting with bookies than does the subgroup on which Quayle obtained data.

It is interesting to compare the Department's estimate of illegal sports betting in New York with that obtained by Quayle—$2.8 billion for the Department, against $428 million for Quayle. It is difficult to see why the Department should have placed such faith in the survey's peculiar 37.8 percent figure, given the discrepancies in the two estimates of total betting.

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In truth, we suspect that the real failing of the estimate was that no one really cared precisely how it was developed, but only that it produce a large number.[3] The assumption that the details of the calculations would not be subjected to any scrutiny led to a cavalier use of the available data. Also, the estimate had no possible consequences; it was produced for rhetorical purposes and has served those purposes very well.

This crude and cavalier treatment of information by police agencies is commonplace. It is important only because these agencies use the resulting estimates to provide legislatures with justification for passing statutes which define their tasks. In the case of organized crime, the tasks have been defined so that the police can continue their traditional fight against illegal gambling under a slightly altered rationale—the threat of national rather than local "mobs."

After years of concerted enforcement against gamblers, without any demonstrable results, it is difficult for the civil servants who direct the government's organized crime control program to conceal the fact that they have no policies. A recent study by the General Accounting Office of the Justice Department's Organized Crime Strike Forces elicited this appraisal, "The Chief, Organized Crime and Racketeering Section, does not believe that it is possible to establish overall program goals and then measure progress toward these goals." It is not often that a bureaucrat will admit this, although we suspect that more of them ought to. But the unembarrassed confession of the fact that there are no policies is symptomatic of the extent to which these particular civil servants have been free from outside scrutiny.

The Strike Forces, much heralded at the beginning of the decade as a bold new approach to the endless war on organized crime, are currently out of favor because of objections by U.S. Attorneys who feared the undermining of their autonomy. Despite all the ballyhoo about innovation, the Strike Forces mainly pursued gamblers. Between 1968 and 1974, 72 percent of Federal wiretaps were for gambling. Moreover, their attention was focused primarily on the traditional organized crime groups, the 24 crime families who are the national Mafia. In testimony before the National Gambling Commission, the Justice Department stressed its success in using anti-gambling statutes against senior members of the Mafia. Our interviews with former Strike Force prosecutors indicate that they

[3] Indeed, when the Department of Justice first announced the results of Operation Anvil, the range of estimates was far higher, $35-60 billion. No explanation for the later downward revision has ever been given.

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felt a strong obligation to focus their efforts on Italian organized crime groups. Most of the press releases issued by the Strike Forces were about the activities of the Mafia.

It is not our intention to deny the existence of a Mafia. In this respect we differ from earlier critics who have had a splendid time demonstrating the inconsistencies of witnesses before legislative committees. Gordon Hawkins, some ten years ago in *The Public Interest*, showed how hard the McClellan and Kefauver Committees had to strain in using the evidence of their witnesses to show the existence of a national criminal conspiracy. Our own research does show that there is a Mafia, and probably more than one, although it is far less distinctive than is normally alleged and its relation to other criminal groups is not clearly defined.

The Mafia

All of our informants who are participants in gambling and other criminal activities firmly believe in the existence of the Mafia, although there are differences in terminology; alas, all have read *The Valachi Papers* or seen *The Godfather*. They also tend to agree about who is a member and who is not, and even about the relative seniority of various members. Though none of them claims to be a member, and no one alleges any of them is, several grew up in families associated with members and have friends they believe to be members. Curiously, none of them claims any knowledge of how members are "made" or what initiation actually involves.

It is clear that membership confers certain rights and obligations, but there is disagreement over whether it is better to be a member or a close associate; associates appear to enjoy most of the rights and incur none of the obligations. Which family one joins has relevance apparently only in case of disputes. There are no restrictions on whom one does business with, but if there is a dispute each member is required to align with his own family.

There may be a "national" Mafia Commission. If there is, it has very limited powers, perhaps only to mediate high-level disputes. The apparent intercity territoriality, whereby racketeers from Detroit are not active in Boston, is almost certainly a consequence of the local nature of the racketeer's power base, rather than any rulings by committees. A more important national function of the Mafia is that it provides a network of contacts in other cities that allows members, who tend to have a range of criminal interests, opportunities for intercity deals.

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The Mafia is clearly only a part of the world of stable, hierarchical criminal organizations. There are others, more or less ethnically homogenous (since most racketeering involves core groups of persons who have known each other from childhood), which also exert power in local criminal activities, have an established reputation for the use of violence, and use corrupt relations with public officials to further their goals, as much as does the Mafia. Narcotics trafficking is certainly one activity in which the Mafia exercises control over only a small part of the market. It is not merely a bow to civil rights to suggest that public officials who focus so much attention on one particular ethnic group, Italians, have an obligation to provide some credible evidence that it is truly distinctive. Americans of other ethnic origins should be given their opportunities to enter the pantheon of popular folk heroes, chased by equal opportunity prosecutors.

In fact, there is one distinctive service provided by the Italian Mafia that is apparently not offered by any other group: arbitration. In an economy without conventional written contracts, there is obviously room for frequent disagreements. These are hard to resolve. Many bookmakers make payments to "wise guys" to ensure that when disputes arise they have effective representation. Sometimes these disputes are resolved on their merits. Sometimes they are resolved simply on the basis of the rank of the two arbitrators. It is critical to note that this arbitration is used in only a very restricted set of circumstances.

It is *not* used to collect from delinquent customers who are unable to meet their commitments as a result of either poor planning or over-indulgence. A legitimate bettor may be cut off and mildly harassed, but he will receive no threats from "enforcers." If, however, the dispute is with a "wise guy" or a "connected" person, then the arbitration system will be invoked. In particular, if it appears that there is a deliberate intention by such persons to defraud the bookmaker, then the Mafia man will be called in. This risk insurance is important to the bookmaker because people in the criminal trades are among the largest bettors and are the customers most likely to flout him. There is general, though only moderately well-informed agreement among the police and our informants that no such system of arbitrating disputes exists in other organized crime groups.

These differences between Mafia groups and other racketeers do not seem sufficiently threatening to justify the special attention they receive either in the press or from law enforcement. But in order

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to make that judgment we must consider the very basis for our concern with organized crime. Though it is true that organized crime control is a matter to which a relatively small percentage of police resources is devoted, certainly less than 5 percent, it has been used to justify giving the police and prosecutors special powers.

Two justifications

Two themes stand out in the legislative justification for organized crime laws. One is the predatory nature of racketeers. The FBI, in particular, is tireless in its reiteration of the notion that gambling is not a victimless crime, because homicides are committed as a result of gambling debts. Others point to the demoralizing nature of heroin addiction, or the inducement that "fences" provide for thieves. In fact, of course, all these are the function of supplying the service rather than of the existence of stable gangs. (By the same reasoning a case can be made for outlawing marriage since it is the principal "cause" of murder.) In other words, if bookies use violence against delinquent customers, it is unlikely that the destruction of the Mafia will reduce that violence. In fact, there is even a credible argument that, by reducing the customer's belief in the power of his bookie to enforce his demands, the actual use of violence will increase. One consequence of the proliferation of numbers banks in New York appears to be an increase in the robberies of runners and collectors by bandits who are not worried about retaliation from organized forces.

Corruption is the other evil that has been used to justify special legislation and action against organized crime. "The inevitable companion of flourishing gambling activity . . . is the bribery and corruption of local law enforcement officials," asserted the preamble to the Organized Crime Control Act of 1970. It is certainly true that the historical record shows many cases of widespread and systematic corruption of major city police departments by gamblers. There are, however, two problems with this statement.

First, it assumes that the relation between illegal gambling and corruption is inevitable. Our own research indicates that it is a function of the particular environment and technology rather than inherent in gambling itself. Telephone bookmaking, during a period of low gambling enforcement, flourishes with little direct contact with the police.

Second, it is not clear that gambling does account for a particularly high percentage of police corruption, measured either in money

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or social impact. For example, narcotics dealing in recent years appears to have generated much larger bribery cases than gambling, as well as instances of police involvement in murder and other aspects of trafficking. And the Chicago Strike Force recently obtained numerous convictions against several networks of precinct police for "shaking down" tavern owners who had no connection with gambling.

More important, though, is the curious obsession with police gambling corruption without any accompanying concern to discover its causes or to find ways to eliminate it. Gambling enforcement has always posed dilemmas for police administrators. Most gambling statutes are designed to enforce prohibition, not to control the activity or to restrict it to certain places. But the police have never been given the political support necessary to achieve this dubious goal. Few judges have ever been willing to give convicted gamblers jail sentences and the fines imposed have usually been trivial. In New York City, gambling cases had so little importance to the District Attorneys' offices that they were used to train new assistants in the routines of criminal procedure.

In New York, at least, the police seem to be resolving this dilemma for themselves. They have abolished aggressive enforcement and replaced it with a policy which is directed at keeping gambling discreet and enforcement honest. There is a relatively small, specialized gambling unit which responds to complaints, maintains an intelligence-gathering apparatus, and conducts raids on those it considers major operators. This policy does not appear to have increased organized crime presence in illegal gambling, although gambling is somewhat more visible on the streets than it once was.

The costs of misinformation

The most important consequence of all the misinformation and inflammatory rhetoric put out by official agencies is to make impossible any realistic discussion about gambling policy. The possibility of legalizing bookmaking, as has been smoothly and successfully done in England, is never discussed. It seems to be assumed that because bookmakers are all working for organized crime, legalization would simply give the Mafia more money. When a state does lurch toward legalization of gambling, as New Jersey has just done with casinos in Atlantic City, there is obsessive concern about who will make money from it. Instead of asking whether there are any Italians who have ever played golf with executives of casino li-

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censees, it would be more sensible to concern ourselves with the fact that one applicant hired as its lobbyists close relatives of the two legislators who chair the committees responsible for drafting casino regulations. Organized crime, in this instance, is clearly a diversion from a far more fundamental and familiar political problem.

It is clear that the campaign against organized crime has been based on myths and misinterpretations. These have led to bad law and even worse policy. We will continue to feel the consequences for a long time to come, as the government monopolies many states have created to regulate gambling become enveloped in the webs of special interests and collusion that afflict government regulation of the liquor and horse-racing industries. The remedies are easy to suggest, if difficult to implement. But a first step certainly is to develop a body of critical expertise based on access to more than statistical reports and conversations with law enforcement officials.

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Metropolis without growth

WILLIAM ALONSO

THE 1970's have seen radical changes in American society. The energy crisis has changed the perception of man's relation to his material environment. There have been rapid, interacting changes in the family, the economic role and status of women, and the birth rate. And sectionalism, a half-remembered concept in poor repute among historians, has re-emerged as a force in national politics. Once again North and South, East and West engage in shifting alliances over the pricing and management of resources, over labor issues, over monetary and fiscal policy, and over regional improvements.

But there has always been another aspect to sectionalism, involved with but distinct from the relationship among the large regions: the relationship between the city and the countryside, which from the time of the Jefferson-Hamilton debates has echoed throughout our political and cultural history. Here, too, the 1970's have provided a surprise. Apart from the opening of the frontier, since the Industrial Revolution people have moved toward the cities. Now the net flow of migration is from metropolitan to non-metropolitan areas. Indeed, many metropolitan areas, especially the largest, are now declining in population, not just in the central cities, but over their entire region.

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The trend of urban growth

Until 1970, the general pattern of growth of metropolitan areas seemed clear and well-established. The major metropolitan areas were all growing at about the nation's pace. Some of the medium-sized metropolitan areas, especially in the West and Southwest, were growing faster, and becoming national rather than regional urban centers. Smaller metropolitan areas, with smaller and also less diversified economies, showed a greater variety of growth rates. According to their economic fortunes, some grew fast and some lost population. Meanwhile, non-metropolitan areas continued to send their young to urban areas, as they had for two centuries. The South, that special region, continued to send its youth, both white and black, to the North and increasingly to the West.

In this context, the Federal government instituted some programs to promote the development of the lagging rural areas and small non-metropolitan cities. Many observers, however, were concerned not only with the decline of these areas but also with what seemed to be a national population explosion, and feared that the growing numbers would crowd into urban areas. Influential individuals, organizations, and government officials from the President on down worried about such over-concentration ("human anthills," as they were called) and called for national policies for population dispersion. A frequently cited report recommended the creation of 100 new towns of 100,000 inhabitants each and 10 cities of one million inhabitants each, and the Department of Housing and Urban Development eventually established a program to assist the developers of these "new towns."

Many students of urbanization opposed this move toward decentralization, on the grounds that the existing population trends were firmly rooted in demographic, economic, and technological realities, and that trying to halt them was akin to King Canute's commanding the swelling ocean tide to stop. Supporters of decentralization contended that by the end of the century, there would be an additional hundred million Americans, and asked, "Where shall they live?" They pointed to well-established decentralization policies in the major European countries as possible models for our own. Opponents replied that the European experience illustrated *their* point, because after more than two decades of effort, neither France nor Britain had done much to reverse population trends. Moreover, those on the Right opposed decentralization as another incursion by government into the freedom of the people, while those on the Left opposed it as a form of escapism, a way to avoid facing the

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cruel difficulties of the cities, most notably poverty and racial conflict.

And so it went. There were some national commissions and White House conferences that addressed these subjects, some ambitious bills introduced in Congress, and some legislative action and programs instituted under both Republican and Democratic administrations. But no great departures were made, whether they would have been wise or not. The country became preoccupied with the Vietnam war, with Watergate, and with the economic difficulties caused by stagflation and resource shortages. A national settlement policy seemed far less urgent, and it was put on a back burner, perhaps even taken off the stove.

Meanwhile, the past few years have witnessed some startling changes in the trend of territorial development. Continued growth of the large urban agglomerations and rural depopulation, which some had viewed as inevitable and others as a dreadful fate that could be escaped only by vigorous action, now seem very doubtful. The many changes are fascinating in their details, but some of the broad outlines may be suggested. Metropolitan population growth as a whole has slowed, and for the first time a great many metropolitan areas, including many of the largest, are experiencing a decline in population, especially in the North and Midwest. This decline involves entire metropolitan areas, not just their central cities.[1] On the other hand, many areas of chronic distress and popu-

[1] Some definitional cautions are necessary. We perceive complex societal events through statistical data gathered according to certain conventions and definitions. Therefore we often err when we assign a common-sense interpretation to the data. When we say that a metropolitan area has a certain number of people, the image leaps to the mind that all of them are urban dwellers in either the central city or its suburbs. But this is not the case.

The principal data we will use are classified by "standard metropolitan statistical areas" (SMSA's), which are essentially defined as central cities of no less than 50,000 population and their surrounding counties, if they meet certain criteria of continuity of urbanized development and commuting patterns. The other principal classification of data is by "non-metropolitan areas," which are merely the areas not included in SMSA's.

Although in general we will equate SMSA's with urban areas or metropolises, and non-metropolitan areas with rural districts or small towns, the realities are not so simple. For instance, on the whole, only one-tenth of the land within SMSA boundaries is urbanized, while the rest is rural. About one-third of the nation's rural population live within SMSA boundaries, and they are responsible for an even larger share of agricultural production than farmers in non-metropolitan areas. On the other hand, within the non-metropolitan areas about two-fifths of the population are urban, and nearly one-fifth of the country's urban population live in non-metropolitan areas. Finally, even the image of rural residents as agricultural is misleading. Only 4.1 percent of the nation's labor force are engaged in agriculture, forestry, or fishing, while (as of 1970) 26.5 percent of the total population are rural. Thus about 85 percent of the ru-

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lation loss have turned around and are growing at a faster rate than the nation as a whole. Most startling, rural-to-urban migration has reversed, and the balance of migration now goes from the metropolitan to non-metropolitan areas. Moreover, in the past, population had been concentrating within 50 miles of the ocean shores; since 1970, however, even this trend has been reversed, and the interior of the country is now growing faster than the marine periphery.

These changes result from many causes, not all of which are understood. Moreover, some of these are not changes at all, but continuations of long-term trends in demography, in the composition and the location of the economy, and in changes in life styles.

Metropolitan population loss

In the past, metropolitan areas had rarely declined in population. To be sure, economic adversity had hit some small areas, but large urban areas, based on larger, more diversified, more adaptable, and more innovative economies, tended to grow on their own momentum. If one of their industries suffered a reversal, another was likely to develop in its place. Indeed, a common pattern was for areas such as Boston and New York to specialize in innovation in electronics, fashion apparel, professional services, and the like; as these activities matured, they moved to other areas, while the metropolises developed new activities. Hence, almost all of the large metropolitan areas grew at about the nation's rate. Of the 25 largest metropolitan areas, only Pittsburgh, notable for being specialized in a traditional industry, lost population in the 1960's.

In recent years, however, metropolitan population loss has become commonplace. By the early 1970's, 10 of the 25 largest areas were losers. One-sixth of all metropolitan areas lost population in the 1970-1974 period, and in 1974 the proportion increased to one-fourth. By now, losers are so frequent among large metropolises that over half of the country's metropolitan dwellers live in areas of population decline.

History has conditioned us to take metropolitan population in-

ral population earn their living in pursuits other than agriculture—running shops and gas stations, working in factories, or teaching in schools and universities.

For convenience, I will often use terms like "metropolitan" or "large urban area" for "SMSA," and "rural" for "non-metropolitan," exercising due care to make clear where other meanings or definitions are involved. But the reader should keep in mind the nature of the underlying statistical bases.

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crease for granted. The consequences of our current novel condition are hard to anticipate, and little thought has been devoted to them. We have neither academic theories nor worldly rules of thumb. Theorists and practitioners both have assumed until now that the future always brought increasing numbers. Although it is almost certain that a majority of metropolitan areas will continue some measure of population growth for the balance of the century, more and more people and areas will experience a different future.

Many observers have linked the slowdown or decline of metropolitan population growth with the unexpected reversal, since 1970, of rural-to-urban migratory flows. This reversal is both startling and important, but it should not be regarded as the sole, or even the major, reason for the decline. There are two other demographic reasons. One, the most powerful, is the drop in the birth rate; the other is the continuing migration among metropolitan areas, which has resulted in gains for some and losses for many.

The declining birth rate

The principal reason for the decline in metropolitan growth is simple: The rate of natural increase has plummeted. It is still positive on the whole, but a great many metropolitan areas now have yearly rates of natural increase of only one- or two-tenths of 1 percent, and some areas have even surpassed the target of Zero Population Growth by having fewer births than deaths.[2] Such small rates of natural increase, coupled with continuing differential exchanges among metropolises, make it a mathematical certainty that many metropolitan areas must experience population losses, even without the reversal of rural-to-urban migration.

The decline in the American birth rate has begun to be noticed by the public; it is sometimes called the "baby bust," in contrast to the "baby boom" that followed World War II. But the sharpness of this decline has not yet been felt. The crude birth rate is now less than 15 per thousand population annually, a historic low. By

[2] Three metropolitan areas actually had more deaths than births. Two of these (Sarasota and Tampa-St. Petersburg) are in Florida and are in fact growing briskly through immigration. But many of the migrants there are old, and have few babies and high mortality. The third area, northeast Pennsylvania, which encompasses Scranton and Wilkes-Barre-Hazelton, is an example of what will become more common in the future. Here, persistent out-migration has reduced the number of fertile young people and left behind an aged population. Ironically, economic changes (of the kind described later in this article) have resulted in a small net immigration in the past few years, so this area has actually grown a bit in population.

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comparison, the birth rate at the peak of the "baby boom" in the late 1950's was over 25 per thousand. Thus, taking account of deaths, the natural population increase in the United States, which had reached 1.6 percent per year, stands now at less than 0.6 percent.

In short, the rate of natural increase has fallen by nearly two-thirds from what it was in the late 1950's. An examination of measures of fertility, of the changing age distribution, of marriage and divorce, and of other factors influencing childbearing suggests that, with possible fluctuations, the birth rate will probably continue to decline. As the rate of natural increase approaches zero, metropolitan areas on the whole will grow more slowly, and as their average rate of growth approaches zero, negative population growth will be commonplace.

In the past, continued metropolitan population growth resulted not only from a vigorous rate of natural increase but also from a steady stream of rural-to-urban migrants. By the 1960's, however, migration into metropolitan areas was small, contrary to the popular image of cities overwhelmed by unacculturated migrants, mostly black, from rural areas. Three-fourths of metropolitan population growth came from natural increase, and only one-ninth from migration out of non-metropolitan areas; the balance consisted of immigration from abroad.

Now that the decline in the birth rate has cut the overall growth rate sharply, the net migration trend is perceived more acutely, as is the differential exchange among metropolitan losers and gainers. As far back as the beginning of the century, Sunbelt centers such as Phoenix, Houston, San Diego, and Miami were already strong gainers from migration; but as long as natural increase (and, at that time, migration from abroad) remained high, every area was growing, and sectionalist jealousies were small.

Patterns of migration

Leaving metropolitan areas has always been normal behavior in our history. In the 1960's, nearly 40 percent of metropolitan areas had more people leaving than arriving. By 1974, 44 percent of metropolitan areas had net out-migration. Whereas in the 1950's, the high rates of natural increase in the population masked such out-migration, the current low rates expose it as a receding tide bares the rocks along a shore.

Where do the people who leave metropolitan areas go? Many observers contend that they are returning to rural America, which

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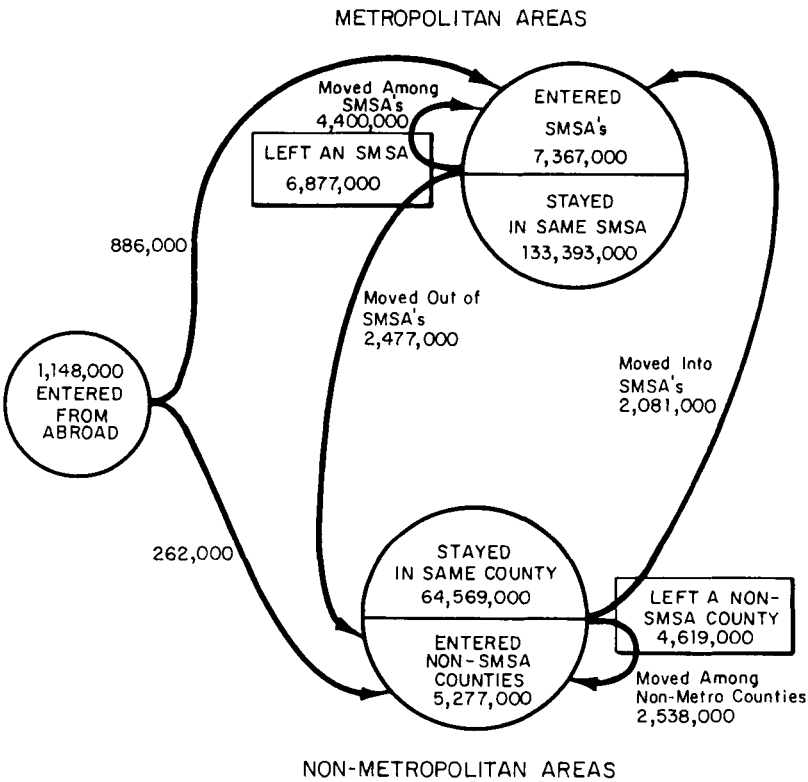
is partially true. But the pattern is rich and varied. Some of what is happening may be gleaned from the chart on this page, which shows the broad outlines of population movements in the United States in the period from March 1975 to March 1976.

U.S. Population Movements, March 1975 to March 1976[1]



Source: U.S. Census Bureau, *Current Population Reports*, Series P-20, No. 305, "Geographical Mobility: March 1975 to March 1976."

Note that 2,477,000 people left metropolitan areas for non-metropolitan destinations, and that 2,081,000 went in the opposite direction, for a net balance of 396,000 in favor of non-metropolitan areas. But note that total departures from metropolitan areas amounted to 6,877,000, of which 4,400,000 (64 percent) went to other metropolitan areas. By comparison, out of 4,619,000 departures from non-metropolitan counties, 2,538,000 (55 percent) went to other non-metropolitan areas.

Viewed another way, the absolute numbers show a positive bal-

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ance of migration toward non-metropolitan areas, but the rates of movement are still in the other direction. In 1975-76, 1.8 percent of the metropolitan population moved to non-metropolitan areas, while 3.0 percent of the non-metropolitan population moved into metropolitan areas. Simply put, the chances that an individual will move from a non-metropolitan to a metropolitan area are still 1.7 times as high as his chances for the reverse move.

On the whole then, the rate of metropolitanization of the population is higher than that of de-metropolitanization, but the absolute size of the out-migration is larger than the in-migration. It is thus a matter of viewpoint as to which way people are moving: In absolute terms, they are moving out of metropolitan areas; in terms of individual chances, they are still moving in.

Yet the very fact of net out-migration from metropolitan to non-metropolitan areas is so surprisingly contrary to two centuries of experience here and in Europe that it has recently prompted a great deal of research and has even repeatedly found its way into the popular press. Some observers have announced the arrival of a new millennium, a profound change in consciousness among millions of Americans who—tired of urban pressures, pollution, and crime, alienated by the corruption of institutions, and imbued with a new land ethic—leave cities for rural areas, in search of a simpler, saner, healthier life. One reads accounts by editors, writers, and other intellectual toilers of the pains and pleasures of their new lives on Vermont farms. One also reads about communal agricultural experiments, mostly carried on by young people.

Undoubtedly, some migration follows this pattern. But two points must be made. First, there is no evidence that such moves amount to anything much, either as a gross outflow from urban areas or as a net gain for rural areas, once return flows are taken into account. The second point is, to my mind, more important: There is absolutely nothing new about the movement to rural areas by some Americans with spiritual or intellectual inquietudes, for a while or for life. The list of intellectuals who have abandoned the cities stretches from Henry David Thoreau to Edmund Wilson, from Jack London to E. B. White. Similarly, community experiments, for ideological or religious reasons, run throughout American history, from Roger Williams through the Shakers, Mormons, Transcendentalists, Fourierists, and a splendid variety of other creeds. A return to the land, whether by individuals or by groups, is as American as apple pie—but is not an explanation of the reversal of the migration pattern.

The reason for the reversal seems to lie in the coincidence of sev-

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eral distinct factors. To some considerable degree, growth of non-metropolitan areas involves a spreading of urban areas. The 18th- and 19th-century cities were extremely compact, based principally on the range of pedestrian movement. With improvements in transportation, principally the private automobile, the effective range of movement was vastly expanded, giving rise to massive suburbanization and the metropolitan phenomenon, which consist not only of the diffusion of workers' homes, but also of the formation of strong suburban nuclei for services and employment. Especially since World War II, not only people but shops and industry too have moved to the suburbs. Manufacturing led the way, and now the service sectors are busily suburbanizing. In consequence, only about a fifth of all suburbanites now commute to central cities, while the preponderant majority lives and works in the suburbs. Indeed, it is now possible to live beyond the suburbs of a metropolitan area (i.e., in a non-metropolitan area) and to commute to the suburbs. And employment and services can also move beyond suburban boundaries. So expanding urban fields may exceed the boundaries of the metropolitan area, but in fact they are functionally part of the same urban system.

Current estimates indicate that over 60 percent of migrants from metropolitan to non-metropolitan areas move into immediately adjacent counties. The 1970 Census classified non-metropolitan counties by the percentage of their work force who commuted to a metropolitan area. The data show a consistent pattern: Counties in which over 20 percent of the work force commuted to metropolitan areas in 1970 had a yearly net immigration since 1970 of 1.5 percent; counties with 10-20 percent commuters had a rate of 0.8 percent; those with 3-10 percent commuters had a rate of 0.7 percent; and those with less than 3 percent commuters had a rate of 0.5 percent.

It is clear that the expansion of urban areas, beyond earlier Censual metropolitan definitions, is a large part of the apparent migration reversal. To a degree, it is not so much that people are leaving the city for the country, as that the city itself is moving to the country. It is worth recalling Louis Wirth's aphorism that "urbanism is a way of life."

The expansion into non-metropolitan peripheries also appears to be part of a general process of population and economic diffusion. Out-migration and population decline are more prevalent among the larger metropolitan areas, while as a group, areas with populations under three-quarters of a million are still growing substantially, with a net in-migration.

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A rural rebirth?

But this is not the entire explanation. Counties well beyond any metropolitan field are for the first time in memory experiencing net in-migration. This is true of every region of the country, with the exception of the old tobacco-and-cotton belt extending from the North Carolina Cape to the Mississippi Delta.

One reason for this trend has been the continuing shift of manufacturing production from metropolitan areas to small cities and rural areas. For instance, from 1969 to 1973 personal income in durable manufacturing increased by 46 percent in non-metropolitan areas and by 25 percent in metropolitan areas; comparable figures for non-durable manufacturing are 33 percent and 24 percent. This flow of manufacturing from center to periphery has extended even beyond the national borders to the northern Mexican cities, to Taiwan and Korea, and to other countries with low labor costs.

The greatest increases in durable manufacturing in non-metropolitan counties have been in transportation equipment, notably in recreational vehicles, mobile homes, and automobiles. The electrical-machinery industry has grown rapidly, and labor-intensive electronics plants continue to move to non-metropolitan areas in search of low-wage labor, primarily female, in the face of foreign competition. (Capital- and engineering-intensive electronics plants have remained in metropolitan areas.) In non-durable manufacturing, non-metropolitan areas have experienced large gains in apparel, rubber and plastics, and leather goods. These too are labor-intensive industries that locate according to the availability of low-wage, unskilled and semi-skilled labor.

Non-metropolitan areas also outgained metropolitan areas in almost every income category, especially in goods-producing industries (manufacturing, mining, and contract construction). As a consequence of all this new economic and demographic vigor, finance, insurance, and real estate are growing very rapidly in these areas.

Recreation industries have also flourished in non-metropolitan areas, often along with an influx of retired people, who not only enjoy some of the facilities, but often supplement their retirement income by running them. The sharp increase of transfer payments, such as Social Security and private pensions, has meant that a larger share of the growing number of older people can now relocate, because their income is not tied to the place where they live. From 1970 to 1975, nearly half a million people over 65 years old left metropolitan areas. Some pulled up stakes and went to retirement communities in the Sunbelt; others returned to places where their roots

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were. In effect, some of this migration is the echo, four decades later, of earlier rural-to-urban migrations.

No up-to-date information is available on the expansion of non-metropolitan employment linked to resource development and environmental preservation. But it is substantial, and includes coal mining and oil exploration and their associated construction and services, water development, land reclamation, construction of atomic plants and other energy-related developments, sewage-treatment facilities, and many other activities. This form of economic expansion is different from other kinds that lead to rural population rebirth because it continues at high levels only for a limited period of time, it largely involves a population accustomed to moving from place to place, and it ceases when the particular activity is completed. Although similar expansion may take place in another non-metropolitan district, this kind of growth results in local cycles of boom and bust, with hardships for the original, remaining population.

Another cause for rural population rebirth appears to be the current recession. If times are hard, many earlier migrants to metropolitan areas go back home, where life is easier to manage and where friends and relatives can help. There is anecdotal evidence that this is happening now, and it is suggestive that the only other period with something like a reversal of migratory flows was the Great Depression (although no figures are available to determine its importance). The economic cycle may be playing a part, but it must be remembered that the reversal had already begun by 1970, when economic times were still good.

Finally, just to be clear about it, the one thing that is *not* happening is a rediscovery of the joys of working the land or a new ethic leading the young to agriculture. From 1970 to 1976, the farm population declined by 1.4 million, or 14 percent, with much of the drop taking place in 1975-76.

It must be remembered that national trends are manifested quite differently in different places. Labor-intensive industry may be moving into one area in the South, absorbing some of the workers released from agriculture. In another area, some white and black workers who had moved North may be returning, some because they are now retired and find life cheaper and more congenial where they grew up, and some because the social and economic progress of the South now makes it an acceptable alternative for them. In another area, possibly in the Great Plains, coal mining may have brought boom conditions to a tiny town, with workers moving in, living in trailers, and bringing with them shopkeepers and entre-

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preneurs. In still other areas, the basis of growth may be a new water-based resort, or a think tank, or an expanded state university campus, or a defense installation, or an environmental project. And, of course, a fair number of non-metropolitan counties are still declining in population.

The available statistics on the characteristics of the migrants support this picture of the economic bases for the revival of non-metropolitan population growth. Those moving from the metropolises to rural areas are younger, better educated, and more skilled on the average than present residents of the same areas. But they are older, less educated, and less skilled occupationally than those leaving the rural areas for the metropolises. So although 100 people arrive in rural areas for every 84 who leave, it thus appears that the non-metropolitan areas are gaining quantitatively at the same time that they are losing qualitatively, by sending the best of their youth to the metropolitan areas.

Finally, as with most American social phenomena, race must be taken into account. For the first time, there are important return flows among blacks. On the whole, however, their direction is still mainly toward metropolitan areas: For every 100 blacks who leave the metropolitan areas, 142 enter them. On the other hand, for the first time there are more blacks moving from the North to the South than in the opposite direction.

The Sunbelt phenomenon

As I have mentioned, migration among metropolitan areas is an important factor in their differential growth. Note that, in the figure on page 74, the number of moves among metropolitan areas was only a shade lower than the number of moves between metropolitan and non-metropolitan areas. Differential growth for the year 1975-76 is therefore far less than the total 4,400,000 inter-metropolitan moves. Direct data are not available, but based on past experience, differential metropolitan growth would be on the order of 350,000 to 400,000 net migrants. This figure is comparable to the net loss of 396,000 migrants from metropolitan to non-metropolitan areas in that year. It is well known that the principal gainers in these exchanges are the metropolitan areas in the Sunbelt. Of the 13 metropolitan areas growing fastest in percentage terms from 1970 to 1974, seven were in Florida, and two each were in Colorado, Arizona, and Texas.

Some important differences may be noted within the Sunbelt.

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Florida and the metropolitan areas west of Arkansas are growing primarily from migration from the nation as a whole, while metropolitan areas of the South are growing in part from national migration (some substantial portion of it being return migration of Southerners), but also in large part from migrations from within their region. One may say that the growth of metropolitan areas in the South results from the urbanization that is returning the region to national parity, while the growth of the rest of the Sunbelt results from inter-regional shifts.

No simple generalizations can be made about the economic bases of Sunbelt growth. It is probably true that many Americans want a better climate and a new way of life, but except for those who are retired or of independent means, jobs and businesses are needed (and to enjoy the climate, air-conditioning is often needed, and it is becoming expensive). Retirement living on transfer payments is part of the economic base in Florida, together with the dynamic influx of the Cuban refugee population. Oil and gas, both as industries and as forms of wealth, are part of the base in Texas. Military establishments and procurement are an important element in California, Washington, and much of the South. Regional functions and services are important to certain Southern metropolises that are situated in areas of rapid economic growth, just as they are to metropolises in California's Central Valley and parts of Texas, which are suffering decline.

Some shifts are visible within the growth patterns of the Sunbelt. The Pacific coast still has fast-growing areas, such as San Diego and San Jose, but its overall growth has been blunted, with the Los Angeles, San Francisco, and Seattle areas losing population in 1970-75. The Mountain States are growing rapidly, and so are areas in Appalachia and the Ozarks, which had been economic backwaters.

No comprehensive analysis of the components of Sunbelt growth has come to my attention, although a variety of partial studies is available. It appears that the expansion is broadly based on manufacturing and services, resulting in part from competitive shifts of economic activities formerly based in older areas, and in part from specialization in economic activities that are themselves growing rapidly.

In a very general way, part of the Sunbelt phenomenon rests on the shift to the "service," "post-industrial," or "information" economy, which complements the increased preference for the climate and life style of the Sunbelt. Try, for instance, asking the operator who answers an 800 area code for an airline, hotel, or car-rental company

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where she is located. From the point of view of the economics of communications cost, she could be anywhere, but in fact she is likely to be in a Sunbelt city like Denver. The extraordinary advances in the standardization, routine handling, and transmission of information, which render it subject to economies of scale and the use of semi-skilled labor (such as that telephone operator), make it possible to locate an increasing number of economic activities where they are wanted, rather than where they are forced to be. (On the other hand, it must be noted that Sunbelt metropolises are more than holding their own in manufacturing employment, as compared to older urban centers.)

Are there then different factors for Florida, the South, the Central States, and the Pacific States that coincide to create the Sunbelt phenomenon? What appears to be going on is a very long-run equalization of the national distribution of urban centers, restoring the South to national parity from the century-old effects of the Civil War, and filling in the country westward to rectify the original mistake of the first British settlers, who landed on the right-hand corner of our nation's map. It is worth repeating that the growth of many Sunbelt centers is not a recent phenomenon, but one that goes back almost to the turn of the century. It was not noticed earlier because high rates of natural increase everywhere masked the differential growth based on inter-metropolitan migration.

Immigration from abroad

The figure on page 74 shows immigration from abroad to be 1,148,000 for the year 1975-76. This must be compared to a reported net civilian immigration of 450,000 in 1975, a year when this figure was swollen by Vietnamese refugees. The difference may be accounted for by returning servicemen, businessmen, and others; some comparable number may have left our shores to take up temporary or permanent residence abroad. The Census publications are singularly silent on the interpretation of this number, yet it is not trivial, since it is higher than the net metropolitan-to-non-metropolitan migration and the net inter-metropolitan exchange combined.

Immigration from abroad is the X-rated statistic in American population figures: It is terribly important, but no one knows much about it. The number entering the country from abroad is almost certainly higher than the total in the figure. Illegal migrants, whether permanent or seasonal, are not likely to be counted in Census sam-

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plings. Various estimates place the number of illegal residents in the United States on the order of 5-10 million, or even higher. Estimates of the number of illegal aliens living in New York City alone range between one-half million and two million. In this case, the whole matter of estimating is tangled in a web of special interests—including ethnic groups, labor, and employers who hire illegal aliens at cheap wages—and such vital issues as revenue sharing and other modes of distributing money based on population figures.

Obviously, if these estimates of the number of illegal immigrants are anywhere near the truth, the population decline of New York is exaggerated, and the population growth of the Southwest is understated. The magnitude of the numbers involved is comparable to the size of the natural increase of the population. Therefore, if anything like the estimated number of illegal migrants is a reality, some important aspects of the redistribution of the national population must be considered. This article cannot resolve these uncertainties or make up for their studious neglect. They remain a question mark that is certain to result in errors and inconsistencies in the data, in wrong diagnoses for policy, and in political equivocation.

The changing context

I have said that there are three principal sources of metropolitan population decline. The first two affect the overall rate of metropolitan population growth: the declining birth rate, which is the larger factor, and the reversal of the net migration with non-metropolitan areas. The third, somewhat smaller, source is inter-metropolitan migration, which redistributes population among losers and winners.

The significance of the declining birth rate is not merely statistical. Births have not fallen by chance but as part of a social evolution involving a transformation of sexual roles, a sharp increase in the proportion of women working (especially among those in prime childbearing ages), and an accelerated change in the nature of family and household relationships. This last change is manifested in the greater number of people living alone or in various combinations of single individuals, in the soaring divorce rate and the rising number of single-parent households, and in dozens of other ways, some subtle and some brutally forceful, that we all experience. These demographic changes are in turn associated with rising levels of education, with the expansion of the service sector of the economy (which employs more women), with changes in technology, ranging

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from contraception to computers and communication satellites, and with the evolution of modern society.

Once it is clear that metropolitan decline is linked primarily to the falling birth rate, which is not a matter of fashion or random fluctuation but of large-scale social changes, then the phenomenon takes on another dimension. In the 1950's and 1960's, metropolises declined only when severe local economic distress led to major out-migration. Now population stability or even decline is part and parcel of social change.

In this larger context, population decline is not necessarily bad. For instance, it is consistent with increasing numbers of workers, because more women are working. Per-capita income may be higher, because there are fewer children per worker, although there may be more retired people. (For instance, if a man supports a wife and three children on a $25,000-a-year salary, the result is a household with an income of $5,000 per capita. On the other hand, if two adults live together with modest salaries of $11,000 and $9,000, respectively, the result is a household with an income of $10,000 per capita.) Population decline may be consistent with lowered public expenditures for schools and urban infrastructure. It may mean an easier housing market, more room and more freedom, less pressure for development, and more chances to adapt. I know of no reason why less cannot be more for urban areas.

Of course, old plants and established bureaucracies can result in fiscal pressures, and this seems to be happening now to declining urban areas, so that they are in greater fiscal difficulties today than newer areas are. But these may be shrinking pains. For instance, crime, which is committed mostly by the young, is bound to go down as the proportion of those who tend to commit it declines. Indeed, metropolitan areas that lost population during the 1960's have experienced lower crime rates.

Consider as well the effect of population decline on the housing market. At first, it might appear that the inevitable consequence of population decline would be a softer market and a sharp decline in the demand for new construction. All things being equal, a declining population in metropolitan areas will obviously demand less housing than a growing one. But a population decline arises from things not remaining equal: There are fewer children and, for related reasons, an increasing tendency for adults of both sexes and all ages to set up their own households. More young people are leaving home, more people are remaining single, more couples are divorcing or otherwise splitting up, and more old people are maintaining

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their own households. The result is that household size has been dropping sharply, from 3.33 persons in 1960, to 3.14 in 1970, to 2.89 in 1976. Thus a stable population would still have grown by 8 percent in the number of households from 1970 to 1976. The very factors that halt population growth also change the way the population behaves and organizes itself in households and in the labor market.

Moreover, with the declining population, not only is the number of households growing, but the overall demand for housing space is increasing even faster. Smaller households consume more housing space per person than larger ones, since units for only one or two people still need a bathroom, a kitchen, corridor space, and so on. Thus population decline is consistent—for a while, but not forever—with a vigorous increase in housing demand.

Nothing that I can see is basically wrong with the current metropolitan population decline. People of all kinds and classes might be better off, and the fiscal plight of the cities might be eased. The main difficulty I see is a possible incapacity or unwillingness to see present circumstances for what they are. If we hang on to the stereotypes from earlier periods of growth, there will be misdiagnoses and pernicious remedies. Precious little thought or consideration of experience has been given to the current decline—and it is already upon us, for the first time in modern history, so we need to get smart fast.

The symbolism of growth

A number of reasons suggest that there will continue to be a net migration towards areas called non-metropolitan by the Census. What is taking place is neither a statistical quirk nor a momentary phenomenon. It seems likely that metropolitan areas on the whole will experience low growth, and that non-metropolitan areas will continue to have net gains in people and jobs. The various, somewhat contradictory, factors are these:

1. Much, and probably most, of the phenomenon of decline involves the continuing extension of urban fields beyond the defined boundaries of metropolitan areas, as the linked activities of industries, services, and residences roll outward, wafted by improved transportation and communication. This trend is certain to continue.

2. The number of retired people will continue to increase, both because there will be more old people and because more of them

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will qualify for retirement or old-age benefits. Many of these people were earlier migrants to cities from rural areas, and they are now able to return.

3. The ruralization of labor-intensive manufacturing may continue somewhat longer, but it may already have crested. The total number of production workers in manufacturing is steady, and the metropolitan areas have already lost much of what they could.

4. It seems likely that, barring continued economic hardship, recreation industries will continue growing. Employment in mining, energy, environmental and resource improvements, and associated construction is likely to remain brisk.

5. Employment in agriculture is virtually certain to continue to decline.

6. As we come out of the recession, some of the return migration customary in hard times will reverse once again.

7. Several of these factors may be modified by our adaptability to the energy crisis. The expansion of the urban field depends in part on the cost of moving people and goods; the recreation industry depends in part on ease of travel, whether by car or by plane; and, because of low densities and shorter distances, rural areas and small towns use extraordinarily large amounts of energy.

On balance, for all these reasons, statistics will probably continue to show a halt in the overall growth of metropolitan areas and a gain for non-metropolitan areas. The remaining question is how we should interpret these trends, and what should be done about them, if anything. The stagnation and decline of rural areas seemed to call for remedies when metropolitan growth seemed inexorable; now that the situation is reversed, the diagnosis and cure will also be reversed.

But I suspect that symbolism will play an important role in the way we think about these issues. As migration and manufacturing patterns are reversed, the old images of the city and the country no longer apply, and one may imagine a new version of Gray's *Elegy* —about the South Bronx rather than a country churchyard. Yet while the traditional symbols no longer apply, they have been so much a part of society's perception of itself that I cannot believe that they will simply be renounced. Over the coming years, we shall be searching for new images to give meaning to current population trends, and they will be a major force in the shaping of diagnoses and policies.

The power of social symbols extends to sectionalist concerns. For instance, California has a much lower proportion of non-metropoli-

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tan population than Pennsylvania or New Jersey, yet its image is one of harmony with the land, natural resources, and the environment. While the South and the Mountain States are urbanizing far more rapidly than the rest of the country, they think of themselves —and are viewed by others—as being less urban and as the preservers of rural values.

These images are neither right nor wrong, merely simplistic. But when events are complicated and not well understood, images and symbols gain special force. Analyzing population trends will inform policy choices, but in the political realm, the drudgery of demography cannot substitute for the vividness of social imagery; in this as in so many other areas of social concern, a new imagery must be developed as a shorthand for social and political communication. In imagery, as in politics, you cannot beat something with nothing, and in our renewed territorial politics, sectional interests have not yet put forth anything that makes sense or captures the imagination.

BIBLIOGRAPHICAL NOTE

The population trends discussed in this article have already generated a stream of studies and new papers are appearing almost weekly. I have found the following particularly valuable, without necessarily agreeing with all their points:

1. Calvin Beale, "The Revival of Population Growth in Non-metropolitan America," ERS 605 (Economic Research Service, Department of Agriculture, 1975), and "A Further Look at Non-metropolitan Population Growth since 1970," *American Journal of Agricultural Economics* (December 1976).
2. Brian Berry and Donald Dahman, *Population Redistribution in the United States in the 1970's* (National Academy of Sciences, 1977).
3. Peter Morrison with Judith Wheeler, "Rural Renaissance in America: The Revival of Population Growth in Remote Areas," *Population Bulletin,* Vol. 31, No. 3 (Population Reference Bureau, 1976).
4. James Zuiches and David Brown, "The Changing Character of the Non-metropolitan Population, 1950-75," in Thomas Ford, ed., *Rural Society in the United States–Current Trends* (Iowa State University Press, forthcoming).

I have also relied on unpublished work by Alfred Watkins for some of the economic base of Sunbelt metropolitan areas. In general, I have tried to synthesize a substantial literature, including some of my own, and have heavily relied on a number of statistical sources, most of them from the Bureau of the Census.

On the matter of the falling birth rate and the nature of current changes in households, families, and the society, there is a vast literature. On the demographics of these changes, a particularly useful source is *Current Population Reports,* Series P-20, No. 307 (Bureau of the Census, "Population Profile of the United States: 1976"). An expanded version of my views on these matters, "The Population Factor and Urban Form," will appear in a volume of conference papers sponsored by the Joint Center for Urban Studies of Harvard University and M.I.T., to be published by M.I.T. Press.

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The regional war for Federal aid

ANN R. MARKUSEN & JERRY FASTRUP

Is it really true that current patterns of Federal aid steal from the Northeast and subsidize the Sunbelt? The facts will certainly play an important role in current efforts to change the regional impact of Federal policy. The rhetorical charges of theft have been abundant. Two years ago, *The Washington Post* announced "A New Federal Favoritism for the Sunbelt States." *The Village Voice* not long after headlined, "Regional Robbery: How Washington Saps the Northeast." More recently, Senator Moynihan contended in *The New York Times,* "The crucial point is that . . . the redistributional mode of government, with its bias against New York, is now firmly established in Washington. It is sustained by the rewards it provides to others." And a *National Journal* staffer predicted in the *Times*, "There's going to be a terrific political issue when the Northeast wakes up to the fact that it's being milked to death for tax money going outside the region." These charges followed a dramatic June 1976 *National Journal* article entitled, "Where the Funds Flow: A *National Journal* Survey Shows that There Is a Massive Flow of Wealth from the Northeast and Midwest to the Faster-Growing West and South." The *Journal* updated its analysis a year later with 1976 data, reaching the same general conclusions. To our knowledge,

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since the *National Journal* series, no alternative calculation of net flows of regional aid has been constructed. But the political and empirical questions are far more complex than such journalistic accounts recognize.

One problem with these efforts is that they too readily incorporate elements of the Federal budget whose geographic incidence (who really pays and benefits) is in reality impossible to determine. Defense spending is one major example. As *National Journal* admitted in its 1977 update article, available methods cannot specify the ultimate geographical incidence of defense contract expenditures. The article nevertheless allocated these expenditures to states based on the location of prime contractors. But the Defense Department estimates that half of its contract expenditures are eventually paid to subcontractors whose location is not recorded. It is misleading to conclude that all the money stays in the regions where the prime contractors are located. For instance, West Coast firms would have been prime contractors for work on the B-1 bomber and Supersonic Transport, although firms located in New England would have received a great deal of the subcontracting work from both projects. Without data on the geographical incidence of subcontracting work, inclusion of such data can lead to serious distortion of the facts. Similar problems attend the analysis of state-by-state allocation of defense-related wage and salary payments. Large chunks of this income immediately flow out of the region through consumption and savings behavior. For example, local multipliers are notoriously low in remote areas where military bases are often located, so wages received there may filter to many other regions as expenditures on automobiles, clothing, processed food, insurance, and other goods.

The inclusion of corporate taxes in the payments from states constitutes a second serious distortion. In employing corporate taxes as state contributions, *National Journal* cautioned that these figures are "probably not perfectly accurate either," citing a Dreyfus Corporation study which concludes that allocation of corporate profits geographically biases the figures in the direction of New York City and other areas that house corporate headquarters. The appropriate question is not in which region, state, or city profits are officially recorded, but who ultimately pays the corporate income tax and where these people are located. If, as some claim, consumers pay the bulk of the tax, then the tax should be allocated on the basis of the national distribution of consumers. For instance, General Motors' tax would not be allocated to Michigan, where its

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payment originates, but among those states where the consumers of GM's products live. If, as others contend, the corporate tax is borne by the stockholders, then the correct allocation would reflect the state residences of stockholders. Economists have been unable to reach any agreement in this debate. Until they do, corporate income taxes should be excluded from regional balance-of-payments calculations.

The popular accounts also ignore benefits that accrue to individuals and corporations from tax deductions, preferential rates, and deferrals. While they are as difficult to allocate as taxes in general, we might expect them to favor those regions with higher per capita incomes and greater concentrations of corporate headquarters. Therefore, their exclusion may underestimate "preferential" Federal treatment of the Northeast.

These criticisms do not amount to mere nitpicking. The *National Journal* study admits that "spending for defense accounts for nearly all the Federal spending disparities among the Northeast, Midwest, South, and West." Therefore, its exclusion from the distributional total would deflate the popular rhetorical astonishment. Corporate income taxes are also significant. In 1975, they amounted to $40.6 billion, approximately one-third the size of Federal individual income tax receipts. And tax deductions, while they are not aggregated in the budget, may amount to more than $100 billion. Thus, conclusions about regional distribution will be seriously affected by how one treats these components.

Competing facts

In describing the massive flow of wealth from the Northeast, the popular accounts rely on "letting the facts speak for themselves." For instance, *National Journal* presented data on the distribution of various categories of Federal spending compared to taxes paid in by the states. This information was then evaluated in light of facts about changes over time in various measures of economic growth (population, employment, income, unemployment rates, and the like). From this juxtaposition of facts the article concluded that the North's loss is the Sunbelt's gain: "[The] rich get richer: Although there were notable exceptions, the study indicated a heavy flow of Federal dollars away from—rather than toward—the states and regions of the nation in the most severe economic straits."

As in almost all issues, the facts do not speak for themselves. An alternative accounting of Federal government fiscal behavior pro-

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duces quite different conclusions. The popular calculus includes four categories in the redistributed pot: Federal salaries, Federal public works, transfer payments to individuals, and Federal grants to state and local governments. The first two, as we have noted, are very difficult to allocate geographically due to subcontracting and multiplier effects. The third category contains payments explicitly aimed at distressed persons that are not intended to be distributed among regions equally. The fourth category, however, contains those programs whose origins have largely been associated with the emergence of regional fiscal imbalance and with demands for Federal equalization. We should reasonably expect this set of expenditures to be equitably allocated across regions. The facts are that such payments do not favor the Sunbelt. Table I shows that the Northeast and West actually receive larger per capita allocations than the East North Central, West North Central, and West South Central regions.

TABLE I. *Per Capita Federal Aid to States, Fiscal Year 1977*

REGION	AID (in dollars)
New England	296
Mid-Atlantic	306
East North Central	237
West North Central	246
South Atlantic	260
East South Central	286
West South Central	238
Rocky Mountain	295
Pacific	286
U.S.	269

Source: Department of the Treasury, *Federal Aid of States: Fiscal Year 1976 and Transition Quarter*, and Census Bureau population estimates and projections.

This outcome is not surprising, given the variables influencing the distribution of aid. Many aid programs require matching funds on the part of recipient governments, so to the extent that some states choose not to tax themselves as much as others, they tend to forego Federal aid. Thus the states with the lowest revenue efforts tend to be lowest in per capita grant allocations. Large per capita state and local government expenditures tend to be associated with higher income levels, which lead to higher levels of aid through the matching process. Thus, the Northeast and Pacific regions, with higher incomes, enjoy larger grant allocations. An-

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other distribution variable, land area, is used to allocate Highway Trust Fund monies. As a result, the more sparsely populated but expansive Rocky Mountain and Pacific states receive relatively large allocations for this purpose.

Nor has Federal aid to states been insensitive to changing regional economic patterns, particularly the economic rise of the South and the decline of the Northeast. Table II presents data on recent changes in per capita personal income and Federal aid for each of the nine Census regions. Table III presents the same data as a percentage of the U.S. figures. In the early 1960's, the Rocky Mountain and Pacific Coast regions were above-average recipients of Federal aid, receiving 166 and 142 percent of the national average, respectively. At that time, both regions registered higher per capita income than the three regions of the South, which received less per capita aid. The three regions of the Northeast received the lowest per capita aid, but also enjoyed the highest per capita income.

By 1976, the New England and Mid-Atlantic regions had significantly increased their relative aid positions from 90 percent to 110 percent and from 65 percent to 114 percent of the U.S. average, respectively. At the same time, the Rocky Mountain and Pacific regions had declined to 110 percent and 106 percent of the national average. The other Sunbelt regions experienced either a loss in relative aid positions or a lower growth rate than the Frostbelt regions, even though their per capita incomes have yet to catch up to those of the latter.

From these observations, it could be argued that while the economic advantage of the Northeast states' economies has diminished, they still rank above the national average in per capita income and the Federal aid distribution is changing in their favor. The Mid-Atlantic region's relative-aid allocation has increased from 35 percent below the U.S. average (the lowest) to 14 percent above the average (the highest), although its somewhat diminished per capita income advantage is still relatively high.

We are well aware that our data do not "prove" that the Northeast is really the major beneficiary of Federal aid. This alternative calculation has its own weaknesses: For instance, it relies on only one, imperfect indicator of economic well-being. We use it only as a rebuttal to the glib interpretations of previous accounts. This exercise demonstrates that simply citing data does not necessarily clarify the issues. Without an explicit normative framework, each party to the debate emphasizes what it considers to be a politically

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TABLE II. *Per Capita Aid and Income by Region for Selected Years*

REGION	1961 AID (in dollars)	1961 INCOME (in dollars)	1970 AID (in dollars)	1970 INCOME (in dollars)	1976 AID (in dollars)	1976 INCOME (in dollars)	1961-70 CHANGE IN AID	1961-70 CHANGE IN INCOME	1970-76 CHANGE IN AID	1970-76 CHANGE IN INCOME	1961-76 CHANGE IN AID	1961-76 CHANGE IN INCOME
New England	35.0	2502	118	4300	296	6590	237%	72%	151%	53%	745%	165%
Mid-Atlantic	25.2	2631	116	4475	306	6932	360	70	164	55	1115	165
East North Central	32.8	2417	83	4135	237	6793	153	71	186	64	625	180
West North Central	44.8	2104	104	3751	246	6130	132	78	137	63	450	190
South Atlantic	35.5	1901	113	3615	260	6007	218	90	130	66	630	215
East South Central	46.1	1569	146	2986	284	5195	217	90	95	74	515	320
West South Central	45.5	1882	122	3407	238	5895	169	81	95	73	425	215
Mountain	64.6	2123	156	3601	295	5990	141	70	89	66	355	180
Pacific	55.2	2678	148	4381	286	7078	168	64	93	62	420	165
U.S.	39.0	2274	116	3966	269	6441	197	74	132	63	590	185

Sources: U.S. Census Bureau, *Governmental Finances* and *Statistical Abstract of the United States*, various years.

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TABLE III. *Per Capita Aid and Income as a Percent of the U.S. Average*

REGION	1961		1970		1976	
	AID	INCOME	AID	INCOME	AID	INCOME
New England	89.9%	110.0%	101.7%	103.3%	110.2%	103.3%
Mid-Atlantic	64.8	115.7	99.8	112.8	113.7	108.4
East North Central	84.2	106.3	71.0	104.3	88.2	103.7
West North Central	115.1	92.5	89.6	94.6	91.5	98.0
South Atlantic	91.3	83.6	96.8	91.2	96.6	93.4
East South Central	118.4	69.0	125.8	75.3	105.5	79.2
West South Central	116.7	82.8	104.6	85.9	88.4	90.6
Mountain	165.9	93.4	134.2	90.8	109.8	93.1
Pacific	141.8	117.8	127.2	110.5	106.2	110.5

Sources: Same as Table II.

advantageous set of facts. An analysis which merely compares states' fiscal balance-of-payments without acknowledging the different targets of Federal programs will not get us far.

Fair share?

Previous accounts have never made their criteria of regional justice explicit. For instance, the original *National Journal* article concluded, "In each category of spending, the disparities among the states are hardly surprising. But when they are added together and placed alongside the Federal tax burden in each state, the results are astonishing indeed." But if the parts of the whole are reasonable, and simple addition is employed, why should the sum be astonishing, unless the authors are implicitly relying on the crude notion that despite the different purposes of various Federal programs, the money must in the end be distributed equally?

The implicit acceptance of "equal receipts for equal payments," applied indiscriminately to all areas of expenditures, leads to indefensible claims of inequities. Suppose the rural-electrification program is scrutinized for "equal treatment." Of course, we would find that disbursements go disproportionately to states with greater land area and rural populations. If we then demanded that all states be treated equally, we would be negating the point of the program, which is to ensure that all rural families have electricity, regardless of what state they live in. Similarly, it is hardly accidental that

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in a program like social security, funds are distributed disproportionately to areas where older people live. The notion that Florida is getting "more than its share" of social security is nonsensical.

In many cases, Federal expenditures were originally prompted by the existence of unequal burdens among the states, so that formulas and legal eligibility criteria deliberately directed money to states in "unequal" amounts. For instance, the residence of greater numbers of poor people, rural people, or elderly people in some regions historically has placed disproportionate burdens on their respective state and local governments. Federal programs, such as social security, Aid to Families with Dependent Children, and rural electrification are designed to alleviate such maldistributed burdens. To then turn around and ask that the aggregate disbursements of the Federal government accrue equally to all regions makes no sense.

At its heart, the argument that the Northeast is being exploited because more local dollars flow to the Federal government than return in the form of expenditures implies that government services ought to be financed by user charges. That is, benefits received ought to be in strict correspondence to taxes paid. This is an equity criterion which seems to have infiltrated the discussion without explicit recognition. But this criterion ignores some of the important distinctions between public and private finance. Many of the services provided, because of their lack of divisibility or because they involve civil rights, cannot be assessed to users: national defense, justice, clean air, waterways, and transportation, to name a few. Such services are provided to all and financed according to some notion of a fair burden of the cost. A criterion linking the level of expenditures to taxes paid would turn traditional notions of fairness upside down. It would require one to argue that those areas with greater incomes should receive greater benefits, a position not generally defended in public debate.

The Federal impact

Despite these weaknesses in the regional debate, we *do* believe that there is an urban/regional problem. The problem is grounded in the interrelated phenomena of central-city fiscal crises and dramatic regional shifts in economic activity. We also think that the Federal government has been an active agent in its evolution and will be a critical participant in its future. These difficulties themselves are rooted in private-sector economic conditions, but have

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been exacerbated by Federal government behavior. The clamor over Federal treatment arises from panic over the sudden emergence and intensity of these problems in the 1970's. When things get tight, the easiest tactic is to run to the fullest till. The more difficult but in the long run more promising route is to investigate the causes of regional shifts and to scrutinize specific Federal programs for their complicity. Explaining regional growth patterns is beyond our scope here. But we can propose a framework for thinking about the regional consequences of Federal government activity.

Such an inquiry would use a different framework than the fiscal-flows debate, which tallies up regional taxes as costs and expenditures as benefits but ignores the complex origins of taxes and the interregional dispersal of benefits. A regional growth concern asserts that whatever else its benefits, a public program will boost an urban or regional economy. This in turn will affect the fiscal health of local government. Since growth is still an unqualified good in the regional debate, its participants want the Federal government to be held accountable for the regional distribution of these stimulants. But the proper question is "how many jobs have been directly and indirectly created (or eliminated) by public programs?" And these changes could be charted using various macroeconomic methods, ranging from simple multipliers extrapolated from past experience to sophisticated econometric models that could connect government activity (by type of investment or industrial sector) with the number of jobs created. In this way, regional allocations of items like defense spending would be properly accorded their full impact. It might show, for instance, that remote air bases in Western states do not produce much second-round employment, while the closing of the big naval base in Rhode Island ultimately cost far more jobs than the 17,000 directly affected. The techniques to do this currently exist. Their use would be confined to the larger programs with identifiable first-round regional employment impacts, such as defense spending.

Fortunately, this limitation is not serious. The few detailed analyses of postwar Federal programs indicate that a handful of programs have been the major public sector agents promoting interregional shifts and suburban relocation (the interstate highway program, the Federal Housing Administration mortgage program, the location of defense facilities, and Federal civilian employment). A recently published Rand report, *The Urban Impact of Federal Policies*, contends that the inadvertent impact of these policies on urban areas may outweigh all postwar urban policies combined.

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The Federal government's "regional bias" thus appears to lie not in its overall fiscal unfairness but in its enthusiasm for a particular set of projects and programs.

If Federal policies of this sort are the culprits, then we can add two more reflections to our criticism of fiscal-flows analysis. The first is that budgetary analysis alone does not give us a comprehensive picture of the government's role in regional growth patterns. In fact, it may miss the most significant actions. FHA loans involve subsidies which do not appear in the Federal budget but which have been quite important in favoring new home construction, especially in suburban areas, over maintenance of the existing housing stock. Regionally-biased Federal loan guarantees, which do not appear in the fiscal accounts (such as those in the $1.2 billion Coastal Zone public infrastructure program and the proposed $10 billion national development bank) are currently proliferating. Other non-budgetary government influences, such as the regulation of transportation rates, tariff decisions, energy price regulations, environmental policy, and Federal financial policy all have regional consequences which cannot be captured with regional balance-of-payments analysis. They can, with differing degrees of difficulty, be looked at with macroeconomic models.

Second, if a few large programs are a major source of Federal regional bias, then we need not pursue the task of a detailed analysis of every category of Federal expenditure—an apparently impossible task anyway. It would be far more useful to concentrate on defining the problems to be solved, identifying the policies associated with them, and deciding which policy tools to use in their solution.

The energy example

A good candidate for current scrutiny is the energy program now under debate. The Carter proposal seems to have been drafted with little consideration of its regional impact, despite the existence of models in the Department of Energy that can roughly predict the changes that it will foster. Indeed, it could be attacked as an anti-urban, anti-Eastern policy.

Several features of the energy policy may seriously bias future regional location patterns. The Department of Energy has let many of its huge research and development contracts to the same industrial-military complex that fueled Sunbelt growth. Similarly, the location of new Federal facilities associated with energy develop-

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ment seems to be biased in the Western direction. An example is the location last year of the Solar Energy Research Institute in Golden, Colorado, a prototypical exurban community. (The proximity of skiing in Aspen and Vail may have been as strong a locational incentive for Washington bureaucrats as was the winning bid by Midwest Research.)

And a frequently mentioned reason for the growing attractiveness of Western coal is the comparatively low cost at which Federally owned land is available to producers. The shift to Western coal production will further disadvantage Eastern manufacturers and undercut the current boom in Appalachian coal fields. Federal land and ocean policy in general, and mineral leasing in particular, may also be encouraging relocation through its generously low rental rates. The interstate highway system, Federal environmental policy, and Army Corps of Engineers water and navigation projects also contribute to the regional shift.

And now the Federal government has a $1.2 billion loan guarantee and grant program to build infrastructure for communities affected by drilling for offshore oil. A proposal by the Carter Administration to mount a similar program for inland energy development (mostly coal) in the West would add another $1.6 billion to this subsidized local public service infrastructure. But the boom employment spurring impact aid will be short-to-medium-lived, since it generally consists of a large construction workforce, building plant and equipment. In the near future, this public-sector capacity may lie idle, possibly attracting yet more manufacturing away from other regions with the offer of in-place services and an unemployed population.

In general, the technological direction of the current Federal energy initiative results in tremendous local dislocations and explosive growth. Nuclear power plants, coal-fired electricity generation, synthetic fuels development, pipeline, and platform construction for offshore oil, plus the activities surrounding the extraction of oil, coal, uranium, and water needed to operate the plants, all involve relatively massive and concentrated production activities in rural and remote places, mostly in the West. If we add the costs of new public infrastructure, migration, and social dislocation, we may find more compelling reasons for pursuing conservation and decentralized technologies.

These growth effects of energy policy are obviously not the only factors that should govern energy decisions. But an administration that is serious about its commitment to urban areas ought to

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be conducting a more thorough investigation of its own energy package.

Common concerns

The concern for regional-growth consequences of public programs is not a substitute for the equity and efficiency criteria that we alluded to in the criticism of fiscal-flows analyses. It is an additional one, which potentially conflicts with other considerations in structuring Federal programs and policies. Ironically, the introduction of a concern for promoting regional growth fouls up cost-benefit accounting by viewing what is conventionally a cost as a benefit. Jobs created by programs are considered costs of production in a standard cost-benefit analysis. But from the viewpoint of those interested in regional growth, the more jobs created the better. Thus a mandate to produce government services efficiently but to avoid adverse regional consequences may complicate decisions such as whether to mechanize the postal service or promote high-technology coal extraction. Similarly, high poverty rates and low per capita income in the South may be a justification on equity grounds for continued special treatment, even though the Southern economy is currently booming. These conflicts can only be settled through public debate.

Despite the complexity of the issues, we are convinced that the quality of the regional debate can be improved and that superior policies can be designed. Rather than compete over empirical definitions of fairness, the regional caucuses might try to reach agreement on what the extent of the problem is. Past programs with regional consequences, like rural electrification and Federal welfare programs, grew out of national agreement that a particular problem deserved direct attention. If a broad agreement could be reached on the desirable regional consequences of Federal policy, the "regional warfare" would be over.

This may not be as difficult as it seems. The rhetoric of regional conflict exaggerates the extent to which regional interests are at odds with one another. In fact, on many of the issues that are supposed to divide regions, their interests are closer than reports of regional conflict suggest. For instance, the fiscal crisis of central cities is not restricted to Eastern seaboard cities. St. Louis and Detroit have chronic problems. California's cities have problems, too, and the state now has an urban strategy aimed at boosting its central cities. Colorado is seeking ways of helping Denver. Nor are

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the adverse consequences of regional shifts in economic activity confined only to the declining regions. States like Oregon and Montana are concerned about slowing and controlling economic growth. Small towns experiencing booming development are crying for (and getting) Federal impact aid because they are growing *too* rapidly. It thus may not be Pollyannish to suggest that if regional jealousies could be muted, many regional groups might agree on policies to support local fiscal health and balanced regional development.

If the battle over distribution continues to rage on a "where's mine?" level, it will simply result in more money going to *all* regions through programs with obvious regional biases—a gain in appearance only, since taxpayers are simply going to pay larger amounts of tax dollars to the Federal government to finance the expansion. Then political battles would be confined to those programs, such as revenue sharing, which have obvious regional distributions but which represent a relatively small portion of the budget, while enormous public programs, like energy, which may have the most significant regional impacts, would be left out of the discussion.

The task now at hand is to lay aside the aggregate fairness debate and search for a consensus among regions on where and how the Federal government should help out. By analyzing Federal policy in the ways we suggest, the Federal government might avoid the waste of millions of dollars in a regional battle over public resources.

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Would Mother Jones Buy "Mother Jones"?

MICHAEL ANDREW SCULLY

MARY HARRIS JONES was a socialist and labor organizer (1830-1930) who traversed America for more than 40 years, leading strikes and lending the labor and socialist movements her awesome rhetorical skills. She railed against the 14-hour workday, subsistence wages, child labor, and the company store. So did her allies in the radical press, in flimsy pamphlets and magazines printed on butcher-block paper. All that has now changed. The magazines of the radical left have lost their beleaguered look, as have their readers: Affluent societies produce affluent critics.

Ramparts was the first magazine to wed political radicalism and glossy pages, to become, in fact, a magazine for unbeleaguered radicals. *Rolling Stone,* the chic newspaper tabloid, began in 1967. Yet it has been the 1970's which has seen the greatest number and variety of new magazines of the left: *New Times,* the short-lived *Politicks,* a biweekly called *Seven Days,* and a magazine named after that old-time radical, Mary Harris "Mother" Jones. To the would-be founders of a 70's descendant to *Ramparts,* the old woman must have seemed a godsend: a labor activist, socialist, female, with initials the same as marijuana's nickname, Mary-Jane.

Something for everyone who feels put out with American life is the formula which has made *Mother Jones* the largest selling radical magazine of the decade. Sporting an up-to-date, *New York*-style format, *Mother Jones* devotes five pages each month to a mix of light and serious illustrated news briefs. Each issue treats the themes of corporate corruption, political atrophy, small-is-beautiful, communal living, and feminism, in 10 or so columns and featured articles. From such regular columns as "Backstage," "Mother's Daughters," and "Mother's Healer," readers glean glimpses of the magazine's condition, radical feminism's, and sometimes their own. Feature stories treat such varied topics as Pennsylvania's efforts to lure a Volkswagen factory to the state ("The Rabbit That Ate Pennsylvania"), agribusiness ("The Saga of the Burpless Cuke"), and a lesbian commune ("Country Women"). Its features are often timely, such as its article on Ford Pinto gas tank explosions, which in April won *Mother Jones* a National Magazine Award for Public Service.

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No magazine, and perhaps no person or group, has fused more successfully the disparate strands of 1960's radicalism than has *Mother Jones*. Then not quite two years old, it boasted a January 1978 press run of 130,000 copies—no small feat for any magazine even remotely concerned with political issues. Yet that is but a mark of its greater success.

In a recent article, *Mother Jones* contributing editor Ron Chernow discussed the condition of post-1960's radicalism:

> There may be a finite fund of revolutionary energy in any society. As Marx and others realized, it can be expressed in political action or sublimated into other cultural forms. Since the spasms of the 60's, that energy has followed a more subterranean course. Many student radicals, weary of mass politics, have dedicated themselves to neighborhood groups, communes or fighting the local atomic power plant. For others, that rebellious adrenalin has been siphoned off by encounter groups, sexual experimentation and religious frenzy.

The real success of *Mother Jones* is that it has managed within its pages a tentative reunion of most of these divergent sects, which in fact have little more in common than the dissatisfaction of their members—some with technology, some with mixed-capitalism, some with the tedium of representative government, some with their parents or themselves. The reunion, even though tenuous, merits some attention, for it is the first since the end of the Vietnam War. It is a mark of the delicacy of this task that *Mother Jones* soft-pedals discussions of creed, and is content to advertise that it is ". . . for people who are getting ready for the Eighties. Who've broken with the old society, but are still looking for the new. . . . a catalogue of possibilities for yourself and the society . . ."

Nothing in the history of the eponymous Mary Harris Jones suggests she ever went thumbing for what to do next. To the dismay of her opponents—and often her allies as well—the real "Mother" Jones was always up to something. A seasoned organizer and crusty firebrand, she managed to win such labels as "the miner's angel," "a criminally depraved woman," "a remarkable warrior," and "a blackmailer"—all this just from fellow socialists of various stripes. An intellectually erratic, independent-minded activist, the real "Mother" Jones, for all her socialist rhetoric, was not above thinking John D. Rockefeller Jr., a well-intentioned gentleman, or, remarkable as it seems, sending John D. Sr.—radicalism's perennial *bête noire*—a congratulatory telegram on his ninety-first birthday.

"I don't need the vote to raise hell," "Mother" Jones once said, but her namesake magazine neglects to mention her fierce opposition to women's suffrage, her belief that a woman's great calling was the rearing of children, or her hope that the successes of the labor movement would liberate women from the need to work outside the home. She was an old-time radical, a socialist who believed in distributing material wealth among a working class she believed had brains enough to use it. There is in her writings no

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salve for new-time radicals who would limit economic growth and then prescribe behavior amid our new-found scarcity.

MARY HARRIS JONES was born in Cork City, Ireland, in 1830, to a family proud of its struggles against the English. Her grandfather was hung for his efforts, and her father fled with his family to Toronto in 1835. She taught school in Michigan for a time, but as she much later remembered, "preferred sewing to bossing little children," and opened a dress shop in Chicago. But not too long afterward she returned to teaching in Memphis, Tennessee, where she met her future husband and married in 1861. Her husband was "an iron moulder and a staunch member of the Iron Moulder's Union," according to her 1925 autobiography, and within six years they had four children. Then the yellow-fever epidemic struck Memphis. In a few weeks, she was alone. Her husband and her four children were dead.

Her autobiography covers her first 40 years in three pages. She had returned to Chicago and with a partner begun a dressmaking business by 1871, yet of the intervening decade we are given no details. In October of that year, the great Chicago fire destroyed along with all the rest "our establishment and everything we had." Aside from her husband's union membership, she appears to have had no connection with the labor movement or radicalism.

That changed, as she relates it, as an indirect result of the fire, which had forced her into temporary quarters in a church.

> Nearby in an old, tumbled down, fire-scorched building the Knights of Labor held meetings. The Knights of Labor were the labor organization in those days. I used to spend my evenings at their meetings. Sundays we went to the woods and held meetings. . . . Those were the days when we had no halls, when there were no high salaried officers, nor feasting with the enemies of labor. Those were the days of the martyrs and the saints. . . .
>
> These early years saw the beginning of America's industrial life. Hand and hand with the growth of factories and the expansion of railroads, with the accumulation of capital and the rise of banks, came anti-labor legislation. Came strikes. Came violence. Came the belief in the hearts and minds of the workers that legislatures but carry out the will of the industrialists.

In his book *Mother Jones: The Miner's Angel* (Southern Illinois University Press, 1974), Dale Fetherling notes, "Mother Jones apparently compressed the order of events since it is doubtful that the Knights had spread to Chicago by the time of the fire." This is typical of the mysterious renderings of her early life, by herself and her detractors, which included, from about 1904 on, charges that she had spent these years in various bordellos.

One of Mother Jones' first experiences as a strike organizer, and almost surely the first outside Chicago, was the Baltimore and Ohio Railroad employees strike of 1877:

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> One night a riot occurred. Hundreds of box cars standing on the tracks were soaked with oil and sent down the tracks to the roundhouse. Over one hundred locomotives, belonging to the Pennsylvania Railroad Company were destroyed [by fire]. It was a wild night.

Nevertheless, Mother Jones insisted that the strikers had taken no part in the destruction. Rather, "it was hoodlums backed by the businessmen of Pittsburgh who for a long time had felt that the Railroad Company discriminated against their city in the matter of rates." This seems an improbable act of revenge. After all, so serious a disruption of rail transportation would have hurt no group more than Pittsburgh's businessmen. But Mother Jones "knew the strikers personally. I knew it was they who tried to enforce orderly law. I knew they disciplined their members when they did violence.... Then and there I learned in the early part of my career that labor must bear the cross for others' sins."

In a rhetoric of accusation reminiscent of more recent times, Mother Jones' autobiography regularly deflects away from strikers any blame for violence, either directly by accusing others, or indirectly by mixing descriptions of working conditions and strikers' intentions with details of official overreaction, the practices of anti-strike hirelings, or charges of police brutality. Not to say that the abuses she mentions did not occur, but only that other things were happening as well.

After one of Mother Jones' speeches to miners in West Virginia in 1917, for example, they did exactly as she suggested: "You goddamned cowards are losing this strike because you haven't got the guts to go out and fight and win it. Why the hell don't you take your high-power rifles and blow the goddamned scabs out of the mines." The "goddamned scabs" appear to have been regular, although nonunion, miners and not persons hired to break the strike. At any rate, a few days later a number of strikers opened fire on nonunion miners being hoisted out of the mines. More than 300 shots were reported fired, but by quickly lowering the hoist back into the mine, the hoist operator prevented loss of life. Nevertheless, six strikers were indicted and convicted of attempted murder. And so Fetherling reminds us that "Mother Jones' preachments were not necessarily her principles in the field. She was consistently inconsistent in her views toward violence, and, most assuredly, toward politics."

THE introduction to Jones' autobiography was written by Clarence Darrow, and much of it is an explanation of her difficulties in maintaining ties with organizations and other labor-movement leaders.

> Mother Jones is essentially an individualist. Her own emotions and ideas are so strong that she is sometimes in conflict with others, fighting for the same cause.... Mother Jones was always doubtful of the good of organized institutions. These require compromise. To her there

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> was but one side. Right and wrong were forever distinct. . . . She had but one love to which she was always true and that was her cause. People of this type are bound to have conflicts within and without the ranks.

From her disputes one gains some appreciation of the intensity of intraparty jousting and the conflict of passionately held opinions on dogma and strategy. When she disagreed with United Mine Workers' President John Mitchell over his agreement to accept the terms of northern Colorado's mine owners and end the 1904 strike there—thus jeopardizing the strike of southern Colorado miners represented by the radical and avowedly socialist Western Federation of Miners—Mother Jones reacted bitterly. She never forgave Mitchell, and in time left the UMW's employ. The miners in southern Colorado, she said, "received sixty-three cents a week strike benefit while John Mitchell went travelling through Europe, staying at fashionable hotels, studying the labor movement."

Mother Jones had helped found the Social Democratic Party in 1898, and here as elsewhere in her career she found coworkers betraying the cause. In 1910, she and two female cohorts accused the Socialist Party's National Treasurer, J. Mahlon Barnes, of "dishonesty, drunkenness, immoral conduct with party employees under his control . . . and neglect of official duty due to his drunken and immoral conduct in and about the national office." The charge of dishonesty stemmed from Mother Jones' contention that Barnes had not paid back a personal loan she had made him. Barnes responded to this by telling the Socialists' National Executive Committee's investigatory board (several of whose members Mother Jones' partisans accused of conflict of interest) that she "has made a large revenue out of the party as a free lance," and that she "pries into individual affairs, [and] enslaves national, state, and local party officials and editors with financial loans."

The investigating committee, to the outrage of a number in the party, concluded that Jones' charges were of little substance. A critique of the findings appeared first in *Miners' Magazine,* and was reprinted in an April 1911 issue of *The Provoker*—a Chicago-based factional pamphlet series, edited by a Jones supporter, Thomas J. Morgan:

> If the membership fail to grapple with this situation that now disgraces the Socialist Party officially, then the party will be submerged in a cesspool whose stench of "free love" and moral rottenness will nauseate even the callous stomachs of the Brotherhood of Libertines . . . the committee on the evidence was forced to admit that "twelve empty bottles" were found in the office of the National Secretary; but the wise and brainy committee was unable to ascertain whether the empty bottles ever contained whiskey or that the bottles were "emptied by Comrade Barnes." But the Committee did find that an angelic creature named Mrs. Hudson found it necessary to secure an apartment at a hotel on more than one occasion in order to take *dictations* from

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> several members of the National Executive Committee and that these *dictations* were taken "until long after midnight" . . . when honest and moral people are "wrapped in the arms of Morpheus."

Yet the intensity of these in-house feuds is instructive for our present purposes, because it demonstrates the passionate attachment to principle—if you wish, "to the cause"—which characterized Mother Jones and some of her colleagues. Nothing could be more mistaken than to think passion enough, or even simplistic principle enough; the John Mitchells and John L. Lewises, from whom Mother Jones took such care to distance herself, in the end succeeded in easing the workingman's plight in a way she neither could nor did. But as an orator and strike leader she was very effective indeed. By that fervor which caused Clarence Darrow to compare her with John Brown and Peter the Hermit, she girded strikers and their families, and, as a local strike leader's trump card, surely encouraged managerial compromise by the threat of her presence. In short, Mother Jones was one of those persons every successful movement seems to require, and who, if they do not live to see the glorious day, become myths, and if they do see it, become the new order's pariahs. Fortunately for Mother Jones, she did not live to see the day, although she did live long enough to see many of her goals accomplished. Many more were on the way, as she foresaw:

> . . . the cause of the worker continues onward. Slowly his hours are shortened, giving him leisure to read and to think. Slowly his standard of living rises to include some of the good and beautiful things of the world. Slowly the cause of his children becomes the cause of all. His boy is taken from the breaker, his girl from the mill. Slowly those who create the wealth of the world are permitted to share it. The future is in labor's strong, rough hands.

These are the closing words of Mother Jones' autobiography, and as prediction they are accurate enough to raise a serious question: Would Mother Jones buy *Mother Jones*? For unless we are to demean her by severing her efforts from her goals—by saying in effect that there are a given number of passionate cranks born to any generation and that they will make do with whatever cause seems inspiring at the time—the realization of her goals becomes the crucial issue. The successes of the labor movement in eliminating child labor, establishing an eight-hour workday for the highest levels of pay and thus the best general standard of living in the history of the world, ought not to be forgotten if we intend to take people such as Mother Jones at all seriously. At the turn of the century in this country one half of all citizens would have fallen beneath the government's present "poverty level"; today only one person in ten does. That is called progress, and should fail to impress only those who don't care a whit about others.

And that returns us to *Mother Jones* magazine, and its readers, waiting, discontent, begging the greatest public question in the

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half century since the Great Depression: *"If we are not hungry, why are we not happy?"* When a disgruntled subscriber writes that the real Mother Jones' "would-be successors . . . don't even know what words like 'liberation' and 'oppression' mean," maybe he is right. But for American politics that may make very little difference, for like perceptions of one's own relative poverty, the conviction that one suffers "enslavement" or "oppression" is not easily open to objective analysis. In fact, it is far less so than poverty, for which the senses provide at least something of a guide. Tomorrow at Elizabeth Arden's an attractive brunette will sit down for her second manicure of the week, and feel burdened. A girl from Grosse Point, studying for a Master's degree she doesn't really want, who lives off Daddy and unemployment checks, will bemoan the aimlessness of life—and feel, yes, oppressed.

In a recent issue, beneath a letter from a 10-year-old complaining about "junk food," and before the twentyish woman detesting sugar-coated cereal, there appeared a letter more suggestive in its lament than most *Mother Jones* correspondence, although not by any means unusual in its tone:

> I have just finished reading your November 1977 issue front to back. This is unheard of. I have never found a totally interesting issue of *anything* before.
>
> I am an unemployed and rather bitter R.N. living in Small Town, U.S.A.; I just moved here from Minneapolis. My salary there was $6.20 per hour and here, when I can find work, I'm lucky to get $4.20. The majority of women here are grossly underpaid. Good God, what a pain!

With considerable trepidation, I telephoned the author of that letter, who turned out to be an intelligent, pleasant woman in her late twenties, a bit embarrassed about what she had written. She wrote the letter, she explained, while she was suffering from the "culture shock" of moving to a town of 250. She had since found a steady job. So why did she move to a place she so disliked? Her husband got a job teaching at a nearby college. Self-description? We're young, a little freaky I suppose, not what you'd call Middle Americans, out of the 1960's political movement. What else do you read? *Mother Earth* and *Ms.* Did you ever read *Rolling Stone*? Used to all the time, but haven't in two or three years. They were still somewhat involved in politics, she said: She was in a local women's group, and she and her husband helped run the food coop in a neighboring city.

"Politics?" I said to myself; and to her, "Well, tell me, when you say politics what do you mean? I mean, why do you call a food coop politics, instead of, say, a social or economic thing—what do you think of as being politics?"

"I guess I mean the politics of living with other people," she said, and explained that to her politics was "synonymous with caring for other people." And so one of the *political* problems she mentioned

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in her new town was how heavily the townsmen drink. Not, mind you, that they drink heavily and speed through town, or drink heavily and kidnap the mayor, but that they drink heavily. Now drinking heavily is neither healthy, nor pleasant, nor wise—and it surely can be a *social* problem—but is it wisely considered a *political* problem? And if so, at what point do the benefits of enforced sobriety outweigh the dangers inherent in empowering government intrusion into citizens' personal affairs? The original Mother Jones—who railed against a socialist leader for drinking on the job—despised Prohibition and considered it a reflection of class differences, for the pub was, as she put it, "the workingman's club."

What did this young woman really want? Maybe something like community, like that familial feeling we had before we knew our parents were young once too, were people, would die; a place where we could care for others and be cared for, because to care was self-protection, for in the individual one would see the many. A place like those of which the Irish songs all sing—places where, it is hoped, people still live happy, uncomplicated lives—Galway Bays and Innisfrees. Places sung about, and cherished, and seldom so much as visited, even when they are real.

Yet the irony of such modern-day longings for community is that they exhibit themselves most often in persons who also profess a desire for "individual self-fulfillment." Perhaps it is the frustration of attempting to reconcile this unlikely combination, or maybe it is no more than the commonplace desire to avoid recognizing ourselves as the principal causes of our own conditions that causes the chronic grumps. In any event, *Mother Jones* gives its readers plenty to grump about. One recent article comparing the salaries paid to Carter's White House staff before and after entering public service made *me* grump. Another on *Hustler* publisher Larry Flynt, which insisted that his fundamental problem was that he was a capitalist, also made me grump, because it was so ridiculous. There is a spate of automobile-safety, nuclear-safety, pharmaceutical- and food-safety articles, all of which indulge a readership ready to bemoan the grump-worthiness of modern-technological society.

Democratic society, and especially American society, encourages grumping, and especially radical-political grumping. If there are persons temperamentally predisposed to political radicalism, there is surely less here than anywhere to restrain them. And if anything —who can know for sure?—perhaps it is some temperamental bond of this kind which links the real Mother Jones with her radical-slick namesake.

YET if she was like her namesake in this, she was unlike it in a more profound way. Mother Jones believed in modernity, in the elevation of humankind to material well-being, without which all other forms of human well-being are evanescent. She believed in decent living conditions, and decent working conditions, and cures for disease—perhaps as only a woman who had watched her children die could believe. She possessed what her would-be-suc-

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cessors lack, an understanding of what can be obtained from modernity: relief from want and disease, leisure time, and not least of all, personal and political liberty. But she did not demand a citizenry virtuous or holy, or a guaranteed sense of community, or others of those spiritual satisfactions it is in the nature of human beings to desire, and outside the power of any political or economic system as such to provide.

Mother Jones magazine, in contrast, is unmistakably anti-modern, although, as does so much of what was once called the counterculture, it divides on the manner of its opposition to modernity. That is part of its appeal. And it is community, the longing for which shapes the counterculture's complaint against modernity, which illustrates the radical left's split personality.

On one side, there is the food coop, where people of like mind can join together in an enterprise they believe to be worthwhile, in their shared as well as individual interests. They will make new friends, share knowledge, perhaps of books, perhaps of crafts. They will live life in a way they believe more suitable, as they have every right to do, and they will not be the first in this country to do so. They will benefit from the affluence of modern society, which will provide hospitals and schools and teaching jobs. Many will do a very American thing—start small businesses.

The "cooperationists" may vary from pre-modernist Alaskan homesteaders to small entrepreneurs, but the counterculture has also brought us the new Prohibitionists and these are distinctly post-modernists. For while the former can flourish in a modern technological society which is free, the post-moderns require for the satisfaction of their conceptions of community a state power capable of putting us all on the wagon, and then keeping us there. Modern society offers us freedom from physical wants, and then leaves us on our own to find happiness in the way we choose. And one must admit, by giving us all that freedom to choose, it undermines what might otherwise have been the fervor of our choices—when the world is a grab bag, who can be certain of the best prizes? That is why in some ways the agony of a free society is freedom. But the post-modern alternative is much more gruesome—a secular orthodoxy sure enough of its dogma to attempt to force conformity. While some *Mother Jones* readers fantasize about Gypsy life—as in a recent article—others fantasize about political power. And it is they who are "waiting for the Eighties," for a moment when there is more agreement on the catechism, and a public mood conducive to pressing further their claim to an indisputable knowledge of what constitutes the public good.

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A Response to "The 'White Flight' Controversy"

DIANE Ravitch's article, "The 'White Flight' Controversy," in the Spring issue of *The Public Interest* includes many misleading and inaccurate points which need to be corrected. It is also almost two years out of date. I would like to emphasize at the outset, however, that her central argument with regard to Coleman's work is correct. Despite all of the methodological critiques, competing analyses, and reanalyses, the major argument of the Coleman, Kelly, and Moore study, "Trends in School Segregation, 1968-73," has been substantiated empirically by the most recent works. My own updated and expanded study, "Assessing the Unintended Impacts of Public Policy: School Desegregation and Resegregation," (now including Southern school districts and data through Fall 1975), as well as recent works by Farley, Armor, Roberts, and Clotfelter, suggests that the implementation of a school desegregation plan, *if* it involves the busing of whites to black schools, significantly increases the decline in white public school enrollment in the year of implementation—averaging out to be a doubling of the "normal" white enrollment decline in the North and a tripling in the South. Although Ravitch scorns the suggestion in my first study that there appear to be less-than-normal white enrollment losses in post-implementation years, Coleman and his colleagues also found the same effect. Indeed, of the four most recent studies which have examined this phenomenon longitudinally, three have found strong "positive" effects after implementation. At the end of four years, the net effect of school desegregation on white public school enrollment is "non-negative" for most school districts and most plans. If she is going to criticize me for this finding, she should be fair enough to mention Coleman's similar finding.

In her criticisms of my first study, as well as in her own presentation of white enrollment data, Ravitch does not seem to understand social science research methods. In order to detect the impact of a policy on a phenomenon being studied (for example, the impact of a job-training program on unemployment rates or the impact of income redistribution schemes on the level of poverty), it is necessary to isolate the long-term trend from the impact of the public policy. The failure to do this is the most common mistake made by journalists, and it is precisely the error Ravitch has made both in her cri-

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tique of my study and in her own "analysis." To use an analogy: No scientist of any merit would attempt to determine the effect of a daily vitamin pill on a normal child's growth by measuring his or her height at one point in time and then again several years later, attributing the observed growth to the daily vitamin pill. Yet that is exactly what Ravitch has done.

Although Ravitch refers to my statistical method throughout her article, she does not even discuss the actual statistical method I used —the interrupted time series with a non-equivalent control group— and falsely implies that I simply examined change in percentage white intuitively. Nobody trained in social science research methods would make such an egregious error. In reality, her only criticism of my study is of the way in which I measured white enrollment change, not of my statistical method. To measure white enrollment change I used change in percentage white, rather than proportional change in white enrollment, because I thought it might control for historical accidents, such as the closing of factories and subsequent unemployment which would cause both blacks and whites to move out of the city but would not change racial proportions. As it turns out, this was unnecessary and I now use proportional change in white enrollment as my dependent variable.

Nevertheless, my earlier study was not wrong because I used a measure of white enrollment change that has smaller units than the one Ravitch suggests I should have used. My conclusions were based on a test of significance (of the change in proportion white with desegregation, when compared to the pre-desegregation trend) and comparison with a control group. Since all cases and points in time are in the same units, changing the size of these units makes little or no difference in my findings because the *comparative* relationships remain the same.

Let me demonstrate with the six desegregated school districts Ravitch pulled out of my 86-city study (Table I). Column A shows the significance of the Mood test using the dependent variable I am

TABLE I. *Comparison of Significance of Mood Test Using Differing Dependent Variables*[1]

City	*Column A* Significance of Change in Proportion White with Desegregation From Pre-Desegregation Trend	*Column B* Significance of Proportional Change in White Enrollment With Desegregation From Pre-Desegregation Trend
Pontiac	Significant (.05 or better)	Significant
Berkeley	N.S.	Significant
San Francisco	N.S.	N.S.
Denver	N.S.	N.S.
Pasadena	Significant	Significant
Boston	Significant	Significant

[1] Source: Author's calculations.

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accused of using to minimize the effect of desegregation. Column B shows the significance of the Mood test using the dependent variable Ravitch argues I should have used so that I would have seen the real effect of desegregation. These results indicate that the use of one dependent variable rather than the other has changed the results for only one case, Berkeley, a small, atypical, university town.

We can more clearly see the relative importance of these two variables by examining multiple-regression equations analyzing data from my updated and expanded study. These are shown below in a simple equation using variables implicitly controlled for in the interrupted time series.

TABLE II. *Effects of Differing Dependent Variables on Multiple-Regression Equations*[1]

INDEPENDENT VARIABLES	CHANGE IN PROPORTION WHITE WITH DESEGREGATION	PROPORTIONAL CHANGE IN WHITE ENROLLMENT WITH DESEGREGATION
	Beta	*Beta*
Percent Black	−.23[a]	−.57[a]
Southern City School District	−.10	−.15
Unemployment Rate	−.22[a]	−.15[a]
Crime Rate	−.04	−.10
Proportion Students Reassigned (Deseg.)	−.54[a]	−.39[a]
r^2	.36	.53
Observations	109	109

[1] Source: Derived from author's study "Assessing the Unintended Impacts of Public Policy: School Desegregation and Resegregation."
[a] F ratio—significant at .01 levels.

Thus even in the updated study using a different methodology the use of one dependent variable, rather than the other, makes no difference in a finding of a signficant relationship. Had a significant relationship between desegregation and white enrollment change existed in my sample (Northern districts only) and during the time period studied (through Fall 1972), I would have found it regardless of the dependent variable used. Thus when Ravitch states, "Rossell has selected a statistical method that will show small declines even in the face of large absolute movements," she would be correct only if I had intuitively examined the data as she did.

—*Christine H. Rossell*

Diane Ravitch replies:

In my article, I sought to show the nature of the response to James Coleman's finding that court-ordered desegregation, under certain circumstances, was accelerating "white flight" from large-city schools. Proponents of busing, instead of addressing the problem Coleman raised, attacked him and his work. I examined in detail Christine H. Rossell's "School Desegregation and White Flight," which appeared in *Political Science Quarterly* (Winter

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1975-76), because it was widely cited as the definitive refutation of Coleman's thesis. Rossell's major conclusion was that "school desegregation causes little or no significant white flight, even when it is court ordered and implemented in large cities," and she held that her data "contradict almost every claim Coleman has made regarding school desegregation and white flight."

One beneficial consequence of Rossell's letter is that the central issue in my article is now settled: Rossell agrees that Coleman's controversial study "Trends in School Segregation, 1968-73" was substantially correct. This is a useful development, because I have found that there is a widespread belief, inside and outside the academic community, that Coleman's work on "white flight" had been thoroughly discredited. Now Rossell acknowledges that "the implementation of a school desegregation plan, *if* it involves the busing of whites to black schools, significantly increases the decline in white public school enrollment in the year of implementation. . . ." Thus, there no longer is disagreement between Rossell and Coleman on this key point, and that issue can be laid to rest.

But, having retracted the major conclusion of her 1975-76 article, she excoriates me because, first, I should have known that she had revised her views, and second, I criticized the way she arrived at her erroneous conclusion. I learned of Rossell's changed views from three unpublished manuscripts that she sent me after the appearance of my article; the one she mentions, "Assessing the Unintended Impacts of Public Policy: School Desegregation and Resegregation," did not become publicly available until August or September of 1978. Had I written my article in the Fall of 1978 instead of the Fall of 1977, I would have known and noted that Rossell had come to agree with Coleman that school desegregation, under certain conditions, increases "white flight." But even so, her original article would still have been an appropriate illustration of the response to Coleman.

As to methodology, my chief criticism was that Rossell measured white enrollment change by looking at change in *percentage* white on a yearly basis (she notes, correctly, that I made no reference to her *method*–the interrupted time series with a non-equivalent control group). As I argued, the change in percentage white can be misleading. When minority enrollment is growing while white enrollment is fairly stable, as it was in Boston in the 1960's, the percentage of white students drops even though no "white flight" exists; when "white flight" did occur in Boston during the implementation years, it appeared to be merely a continuation of a long-term trend, rather than a significant movement. Furthermore, the choice of this particular measure systematically understates the extent of "white flight" where it does exist, and this may be one reason why Rossell could find little or no significant "white flight" in her early work. The criticism must not be entirely irrelevant, because Rossell notes in her letter that she no longer uses change in percentage white as her dependent variable but has adopted proportional change in white enrollment.

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My doubts about Rossell's assertion that "white flight" rarely occurs after the imposition of citywide desegregation are sustained by her latest study. According to Rossell, the greatest "white flight" occurs in the year of implementation. When those who object most to the desegregation plan have left, "white flight" diminishes. In districts that are less than 35 percent black, white enrollment losses return to the pre-desegregation rate or even lower, while in districts that are more than 35 percent black, "white flight" *continues* in the years after implementation (at a rate less than the peak of the implementation year). Where we differ is in the implications of this finding. Rossell sees the eventual slackening of "white flight" after desegregation as an indication that citywide racial balancing may be a good strategy for guaranteeing racial stability in American cities; additionally, she concludes in her latest study that "all school desegregation plans show a net benefit in interracial contact, and paradoxically this benefit is greatest in school districts at or above 35 percent black despite the fact that these are the school districts with the greatest white enrollment loss." But I am concerned that citywide racial balancing in a big-city district that is already predominantly non-white (and most big-city districts are at least 35 percent black) may leave few white students to integrate. Ultimately, then, the issue in the "white flight" controversy is not one of technique but of social policy, where reasonable people may disagree.

David J. Armor comments:

Diane Ravitch's review of the "white flight" controversy underscores the perils faced by researchers who question the efficacy of desegregation policy. The attack by certain social scientists and educators on Coleman's "white flight" report was of a ferocity unprecedented in the treatment of a scientist of Coleman's stature. What is especially noteworthy, as Ravitch brings out, is that none of these well-publicized critiques—which pounced on Coleman's alleged methodological mistakes—presented anywhere near as careful an analysis of the "white flight" phenomenon as did Coleman. For example, while Coleman's analysis shows that the "white flight" effect is substantial only when desegregation is accompanied by several conditions, such as large district size, a high percentage of black enrollment, and availability of white suburbs, none of the major counter-studies by Reynolds Farley, Christine Rossell, and Thomas Pettigrew and Robert Green attempted to control for these crucial factors.

What Ravitch does not mention, however, is that later and more detailed analyses by both Farley and Rossell yielded results quite consistent with Coleman's. (Farley's paper was presented at the American Sociological Association meetings in September 1976, and Rossell's first presentation was at a Boston University symposium in April 1976.) It is to their credit that both Farley and Rossell have admitted, publicly, that Coleman's original findings are essentially correct (Pettigrew and Green, whose critique relied heavily upon the original Farley and Rossell studies, have not been heard

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from.) On the other hand, neither of these two newer reanalyses has been circulated beyond specialist circles or published, so perhaps Ravitch cannot be faulted for failing to cite them. The important question is why none of the agencies who expedited publication of the early critiques—the National Institute for Education, the Brookings Institution, the *Harvard Educational Review*, the *Political Science Quarterly*—has been anxious to get the word out on these latest studies. The failure to do so prolongs confusion and ambiguity as to the actual state of social science on this issue. Worse, it raises the question of whether these agencies, entrusted with accumulating and promulgating objective scientific knowledge, are in fact bending to political pressures or ideological preferences.

A more important difficulty with the Ravitch review is her presentation of eight-year white-loss data in the 29 largest cities. A careful reading reveals that Ravitch does not claim all of these losses are due to busing; she acknowledges that some of the losses are due to other factors associated with declining white populations in urban centers. However, this type of data is frequently misunderstood, since many commentators have confused total white losses with the "white flight" due to busing. Coleman's report evaluated the effects of desegregation per se, above and beyond losses caused by other factors. In order to do so, it is crucial to separate losses due to desegregation from losses due to declining white births and outmigration arising from events unrelated to desegregation.

Since the Ravitch review may well raise many questions about the true magnitude of busing effects, it might be useful to summarize the results of a new study of "white flight." (See David J. Armor, *White Flight, Demographic Transition, and the Future of School Desegregation.* The Rand Corporation. P-5931. August 1978.) This study focuses specifically on court-ordered *mandatory* desegregation in larger school districts (over 20,000 students) with a significant minority enrollment (over 10 percent). It seems relatively well-documented that "white flight" is not accelerated in districts adopting voluntary desegregation plans, nor in districts with a very small proportion of minority students. The issue of district size is somewhat more complex, but certainly the larger districts raise the more important policy implications, since they encompass the vast majority of black students. The reason for singling out court-ordered cases is that they raise the most likely conditions for "white flight." Rossell's recent studies have shown that the number of white students reassigned (or bused) seems to be the crucial determinant of "white flight," but in fact this rarely happens to any significant degree without a court order. A court action also signifies considerable community opposition to certain types of desegregation, expressed through the elected school board.

The unique feature of this new study is that it attempts to pin down the total long-term effects of court-ordered mandatory busing by using a demographic projection technique to estimate what the white enrollment would have been in the absence of desegregation. While the original paper should be consulted for details

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about methodology, it suffices to say that the technique uses actual white births and pre-desegregation white outmigration rates (from census data) to project the school-age population. From this projection, the "natural" rate of white enrollment decline can be estimated. Like Coleman and the later Farley and Rossell studies, my study concludes that the "white flight" effect is strong in most court-ordered districts that have more than 20 percent minority students and available white suburbs.

The first important finding is that there is a substantial anticipatory effect the year *before* the start of desegregation, with the actual rate of white loss more than double the projected rate. This finding makes one of Rossell's methods, which predicts post-desegregation loss rates from pre-desegregation rates, very hazardous indeed, with a likely underestimation of "white flight." Second, the first-year effect is truly massive, with a loss rate four times higher than it would have been without desegregation. Finally, according to my findings the long-term effects are also substantial, with actual white losses still nearly twice the natural losses four years after the start of desegregation.

The effect of accelerated white losses on "resegregation" is substantial in most of these cases. In a majority of these school districts, more than half of the total white loss over periods of seven to eight years is attributable to desegregation events. Further, in many instances the effect of court-ordered desegregation is to speed up the "tipping" process, whereby a district becomes predominately minority; in a few cases, such as Boston and Denver, it is possible that the districts would not have tipped at all without the court orders.

There is no question that some experts will question these findings on the size and duration of "white flight" effects; all methods for determining desegregation effects must make assumptions, and while mine seem reasonable, they can be challenged. In fact, I agree with Ravitch that we will never know with certainty the precise impact of these court actions on white losses.

Nonetheless, debates over methodology must not be allowed to obscure the central policy issue. Most of the school districts I have studied are losing whites at a rapid rate. While part of the cause is demographic, the court action only increases the risk of "resegregation." For persons who sincerely desire to increase the total amount of integration, this risk has to be disturbing. At precisely a time when policies are needed to halt or reverse the normal white declines in urban areas, we have instead court actions which are exacerbating the condition. Although the effects may be relatively small in some cases, in other cases they are large. In either case they seem inappropriate during an era when most urban experts are urgently seeking ways to attract whites back into cities. Clearly, other school desegregation remedies must be considered.

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CURRENT READING

Affirmative Confusion

The American Indian Policy Review Commission's final report, a Federal study which included findings from 11 task forces composed mostly of Indians, was the subject of a review essay by Mary Ellen Ayres in *The Monthly Labor Review* (April 1978).

> The final report makes 206 specific recommendations, ranging over a number of issues. The Commission mentions in its report a significant problem which could hamper the implementation of its recommendations: the lack of comprehensive, accurate statistical data on Indians. . . .
>
> Today, some of the Indians on tribal rolls no longer live on reservations. Some Indians solved their problems with the newcomers to the continent at an early date, without being placed on reservations. Their names do not appear on tribal rolls. This situation contributes to the gaps and inaccuracies of statistical data on Indians—statistics that could be the basis for charting conditions, planning programs, and measuring progress in Indian affairs. But the basic reason for questionable statistics, the Commission argues, is that no clear-cut, generally accepted definition of an "Indian" exists.
>
> The Federal government, state governments, and the Census Bureau all have different criteria for identifying a person as an "Indian." Federal criteria are inconsistent from one agency to another. For example, a state that wishes Federal financial help for the education of Indians receives it only for the people in its program who can prove at least one-quarter Indian blood. To receive preference in hiring as an Indian, enrollment records from a Federally recognized tribe have been required. . . .
>
> The difficulty of Indian data collection is compounded by the fragmented jurisdiction over Indians. Health services, agricultural and other developmental assistance, business loans, housing aid, land development, and other programs—although all directed to Indians—are handled by different government agencies. Thus, statistics that would reflect the Indian condition are scattered. There is, at present, no central clearinghouse for the data. Only 28 percent of all U.S. Indians live on land reserved to the Indians—reservations. . . .
>
> State and Federal reservation statistics do not begin to tell the whole American Indian story. An estimated 32,000 Indians exist without either

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Federal or state recognition. Some belong to tribes that were never recognized by the Federal government, others to tribes whose Federal status was "terminated" by legislation during the 1950's and early 1960's. . . .

The task force report indicates that, for the purposes of a successful and complete enumeration of American Indians during the 1980 census, Congress should direct all Federal departments and agencies to utilize this definition: "American Indian or Indian" means any individual who is a member, or a descendant of a member, of a North American tribe, band, or otherwise organized group of Native people who are indigenous to the continental United States or who otherwise have a special relationship with the United States or a State, through treaty, agreement, executive order, or statute.

Snail Darter Redux?

Edward O. Wilson, in a book review for *Science* (July 28, 1978), provided an indication of how many obscure candidates there might be for protection under the Endangered Species Act.

Production Ecology of Ants and Termites is one of the indispensable guides for future studies on these social insects. Yet despite its large bibliography—approximately 1000 titles, of which more than 80 percent were published in the past 20 years—the work it summarizes is no more than a modest beginning. Only a tiny fraction, much less than 1 percent, of the more than 10,000 ant and 2000 termite species have been considered in any detail. And, as the authors themselves are clearly aware, little effort has been made to relate the raw numbers produced by the ecosystems studies to the idiosyncrasies of social behavior and environmental adaptations of individual species. Thus the behavioral ecology of social insects stands as one of the most promising special fields of study for the immediate future.

Terrible Boars

An *Audobon* article (May 1978) by George Reiger described the National Park Service's new war against the Russian wild boar, an endangering species in the Great Smoky Mountains National Park.

Sus scrofa, otherwise known as the Russian wild boar, was brought to North Carolina from eastern Europe in 1912. The animals were intended for a private game preserve, but some escaped, and by the time the Park Service began to administer the lands of this particular park in 1934, the wild boar and various crosses with domestic hogs were well-established in the North Carolina and Tennessee mountains, where local hunters tracked them with hounds for recreation and food.

Considering the history of the matter, the Park Service might have winked at the presence of the pigs even as it winks at the presence of the lake trout in Yellowstone. However, unlike the lake trout, the Russian boars have not made even a tentative peace with their adopted environment.

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The animals break apart and roll back the turf of grassy balds, damage root systems of trees and shrubs, and destroy understory herbs. Research indicates the hogs wiped out most of the Turk's-cap lilies between Clingman's Dome and Siler's Bald in just a few years, and the Gray's lily, always rare, has not been seen in the park at all in recent years.

The boars feed on indigenous snakes, salamanders, birds, fish, and small mammals. They create serious erosion and siltation problems in and near streams, and they compete for food with such diverse wildlife as skunks, turkeys, bears, and bobcats. . . .

As if to dramatize the staying power of Russian boars under pressure, the Park Service last August brought in an outside team of professional pig hunters and their hounds with the goal of killing 100 boars in 14 days. They got one.

To compound this embarrassment, local residents (some of them hog hunters who clearly resented the presence of outsiders in "their" park) complained that all the charging through the underbrush by people and hounds unfamiliar with the terrain wreaked far more environmental damage than a battalion of hogs ever could.

Still, the Park Service has not given up hope that some laboratory miracle will give them the upper hand in their war against the boars. The agency has investigated the use of a chemical sterilant that could be put in moonshine—for some reason, mountain hogs groove on homemade whiskey. The moonshine would then be put into special pens where other wildlife can't reach it.

Unfortunately, black bears also love moonshine—female boars and bears are said to get "sowsed" on bubbling blends of corn, yeast, and sugar—and no one has yet devised a portable but completely bearproof cage. Some wildlife authorities believe this will require an even greater technological breakthrough than development of the boar sterilant.

British Spinster Shortage

The Economist (June 24, 1978) reported on the effects of changes in the ratio of women to men in Britain.

More boys than girls are born, in the ratio of about 106 to 100. But the surplus of males gradually disappears through life mainly because they die younger in their beds or in accidents, and periodically go to war. There are only about three old men left to every ten old women.

The important change that has crept into the structure of Britain's population almost unobserved—or at least unremarked upon until the publication of an official demographic review this week—is that the age at which women begin to outnumber men has got progressively higher and is expected to get higher still. Very young men may continue to kill themselves in motor accidents, especially on motor bicycles; but at the commonest age for marriage (20-24) there are 5 percent more men than women. The women do not catch up [to] men in numbers until after the age of 45. "This has led," says the report, "to

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a scarcity of young marriageable women relative to the number of young marriageable men in the population." Before and during the Second World War demographers used to talk about Britain's "accumulated stock of spinsters." There is no such stock today.

Together with the control of their fertility that the pill and easier abortion have given modern women, their better chance of marriage, of not being left on the shelf, is of great social importance. It means that women are more able to pick and choose, not just their husbands, but also when they will marry, when they will have children and when they will return to employment. It also means that occupations traditionally dependent on a stock of spinsters—nursing, for instance, and teaching—have had to recast themselves. The unmarried daughter of a generation ago, who looked after her aged parents, is probably now a geriatric problem with no immediate family to care for her.

Theory Versus Practice

Writing in *The Village Voice* (July 3, 1978), Alexander Cockburn described the predicament of Bertell Ollman, a Marxist professor of politics at New York University and inventor of a board game called "Class Struggle."

> Since October 26, 1977, workers at Brentano's book store in Manhassett, Long Island, have been striking for union recognition. . . . The workers, charging that Brentano's has committed unfair labor practices, have been picketing the store for the last eight months. And each day as they picket, they peer in the window and observe one of Brentano's hottest selling items—Ollman's game, "Class Struggle."
>
> One of the strikers, Gary Stevenson, tells me that the group felt that the existence of "Class Struggle" on the other side of the picket line constituted a pretty irritating sort of contradiction and so the Brentano's workers went to Ollman and asked him to think hard about which side he was on.
>
> Ollman says they asked him to withdraw "Class Struggle" from all Brentano's stores, and that that was a troubling request, since Brentano's had 13 percent of the entire "Class Struggle" business, was his biggest single customer, and furthermore had taken out advertising for the game. He said no other radical supplier of Brentano's—*Monthly Review*, for instance—had been asked to undertake such action. Because his company is now producing 25,000 more sets of "Class Struggle" (beyond the original 5000) Ollman said, "we, while sympathizing with the strike, did not want to be the only radical supplier to take action if it might mean the end of our business."

More Blacks in College

The Socioeconomic Newsletter (July 1978) summarized a study showing that in certain income categories, a higher proportion of black college-age youth attend college than do their white counterparts.

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A new Federal study has shown that black students from both middle- and lower-income families are more likely to be enrolled in college than are their white counterparts. According to the annual report of the National Center for Education Statistics, 21 percent of college-age blacks from families earning $10,000 to $15,000 were enrolled, as against 17 percent for whites. In the $5,000 to $9,000 income range, 17 percent of young black adults were in college, as opposed to 15 percent of whites and 11 percent of Hispanic derivation.

The study also reported that black college enrollment grew from 282,000 in 1966 to 1,062,000 in 1976. The percentage of blacks among college students grew in that period from 4.6 to 10.7 percent.

The study found that students receiving financial aid were less likely to withdraw from their studies. Seventy percent of black and Hispanic freshmen received some form of financial aid, the figure was 52 percent for white freshmen, according to the study.

Heads You Win, Tails . . .

A University of Southern California researcher named Jack Hackney has found that people develop a tolerance for air pollution, according to *National Wildlife* (April/May 1978), but just what this means is not so clear.

Hackney got a group of Canadians together with a group of Los Angeles residents and ran them all through the same test. The Los Angeles people were accustomed to breathing air polluted by ozone, a noxious gas produced when auto exhaust combines with sunlight. The Canadians were strangers to ozone pollution.

When the Canadians exercised on Hackney's stationary bicycles while breathing ozone, they coughed and their throats became sore. When the Californians took the test, they showed no ill effects whatsoever.

Hackney has since tried the same test on other non-Los Angeles residents with the same results. But that's not all. After a few days of testing, all of the out-of-town subjects' symptoms disappeared. Conclusion: Some people get used to pollution. "However," Hackney cautions, "that does not mean pollution is safe." On the contrary, in fact, it could mean that the long-range effects of air pollution are even more insidious than folks suspect.

An Oil Analogy

Edward J. Mitchell used an "analogous world" to illustrate the history of government regulation of the oil industry since the 1930's in an article for *Regulation* (July/August 1978).

In this analogous world, as in ours, there was a great depression in the 1930's, and an oversupply of people wanting to enter the movie business, the recording business, and the like. This meant that most actors were unemployed, while a few (like Cagney and Bogart) were big financial successes. This was judged to be unfair to the less popular actors. The government therefore began to regulate the production of

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successful movies. Those would be strictly limited in number and in the number of showings, in order to leave a pent-up demand for movies that could be satisfied by unpopular actors and producers. To keep the income of all actors and moviemakers high, the total number of movies made would also be reduced so that the price of admission could be raised. The plan worked spectacularly for the unpopular actors until the 1950's when foreign movies, which were not restricted in supply and were cheaper to make than the U.S. movies, began to be imported. The threat of foreign movie competition caused the government to introduce movie import quotas. Only a small number of foreign movies would be allowed each year so as not to disturb the domestic movie business. But which movie theaters would get to show the foreign movies? After all, since these movies were cheap, everyone wanted them. It was decided to allocate them disproportionally to movie theaters in the Midwest because the theaters there were otherwise too small to be economical. The problem with this solution was that Midwesterners did not like foreign movies. So while the foreign movies were given to the Midwestern theaters, they in turn sold them back to Eastern theaters—which was of course highly profitable for the Midwestern theaters, but not an especially efficient way of working things.

In 1960, attention turned to recording artists. Record prices were also to be controlled. At first it was decided to charge a different price for each record according to its cost of production. But this proved impossible, given the millions of records involved, so it was decided to set the prices of records according to the region where the recording artist was born, with the country divided into six regions. Because the price was set low, some recording artists decided they could make more money as truck drivers. As a result, the supply of recordings fell and there were not enough to go around. The law provided that recordings made and sold in the same state were not subject to price controls, which led, of course, to booming record sales in those states where good singers happened to be born. People who liked good music moved into those states.

It was also decided that since old singers had been trained in a period when costs were lower, they should be paid less than young singers. Also, it was argued, old singers were already committed to singing, so the low wages would not drive them out of the market. Young singers were paid much more so as to try to encourage youth to sing. It was assumed that young people would not look ahead to what their prospects would be when they were old.

In 1971, the record shortage was accompanied by a movie shortage as price controls were put on U.S.-made movies. Some U.S. producers and actors moved abroad. In order to make up the shortage, the country began importing foreign movies made by U.S. producers and actors abroad. Foreign governments saw the opportunity to milk this continued strong demand for foreign movies by placing enormous taxes on their movie exports. The prices of foreign movies made by Americans increased several times, while the prices of U.S.-made movies remained under government control. People blamed American movie

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producers and actors for the high prices. With foreign prices soaring and beyond our government's control, price controls were extended to theaters and the movies were allocated among them. But the government based its estimate of movie demand in each area on old data. As a consequence, theaters in Michigan stayed open 24-hours a day in an effort to attract customers, while in New Jersey moviegoers waited in line six hours to get into a theater.

With the low controlled prices for domestic movies, there were few movies around and all the theaters wanted them. The government decided to give the cheap U.S.-made movies to theaters that seated less than 10 people because these theaters were uneconomical. Such was the government subsidy to small theaters that you could build a new small theater and get your total investment back in the form of government subsidies in seven months.

When a new President was inaugurated in 1977, he announced a program that would solve the crisis of high prices and little entertainment. His solution was to tell Americans to stop going to the movies and stop listening to records. In the long term he promised new and cleaner forms of entertainment that would cost three to 10 times as much as current entertainment. This, he said, would save consumers from being ripped off by conventional movie producers and recording artists.

At that point, some professors took an ad in *The Washington Post* to argue that our entertainment policy had caused artificially high prices, unemployment for American actors and singers, far more foreign movies than Americans really wanted to see, enormous profits for foreign governments, the continued use and building of minuscule theaters, and (looking down the road) the prospect of scandalously expensive forms of entertainment that people might pay for simply because nothing else was available. The professors' solution was to let anyone entertain who wanted to and let anyone pay for it as he or she saw fit. They claimed that if the government simply stepped aside, the crisis would sort itself out. Journalists, lawyers, and politicians were especially hostile to this idea, calling it naive and a weak response to a serious national challenge. They said it would result in large incomes for successful entertainers, most of whom came from just one or two places, neither of which was New York or Washington.

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FALL BOOKS

A Special Supplement

Associate Editor: Robert Asahina

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Clifford Orwin on Neo-liberalism

James W. Ceaser on the Uneasy Electorate

Tom Bethell on Government and the Arts

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Martha Bayles on Novelistic Social Science

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William J. Bennett on The Collegiate Miscellany

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Neo-liberalism

CLIFFORD ORWIN

DOING GOOD* springs from a series of symposia, featuring three humanists and a civil libertarian and held before audiences of social service professionals. The book aims to demonstrate

> not only the feasibility but also the usefulness of joining the humanities with social policy. . . . In substantive terms, these essays are an attempt to clarify how it is that, particularly in the United States, dependency and benevolence have become problematic subjects. . . . We believe that the perspectives offered here do represent, modestly put, a reformulation, or more ambitiously, a fundamental redefinition of the assumptions and practices that guide social policy toward the dependent. . . .

Yes and no. *Doing Good* does clarify why policy toward public dependents has become so contentious, but partly by its own inability either to reformulate or to redefine.

This is one of those many books that might be entitled "Beyond Liberalism," or "Liberalism Today." It symptomizes a liberalism that is not advancing "beyond liberalism," for all its insistence that we must do so. The neo-liberal differs from his previous self in the way that he establishes, to his own satisfaction as well as that of others, that he is a man of liberal good will. He does it by demonstrating his willingness to confront the shortcomings of liberal good will.

Doing Good is a good example of neo-liberalism. Its authors do not spare the rod in their treatment of the tradition of social policy of which they own themselves to be the heirs. The central essay of the collection is David J. Rothman's "The State as Parent: Social Policy in the Progressive Era"—an era that Rothman sees as having lasted until the late 1960's. Rothman was the initiator of the project that has issued in *Doing Good.* His piece articulates the policy dilemmas from which the other three essays begin and in which, unfortunately, they also terminate.

Rothman is a social historian, and Progressive America is his beat. He sketches, deftly and impartially, both the rise of the Progressive approach to social dependency and its demise in the present "post-Progressive" era. He reminds us that there once seemed much to be said for the Progressive species of social interventionism, and that much of what is now said against it adopts a tone to which hindsight has no right. He is especially insistent that by their lights, the Progressives acted on only the best intentions. But he also shows clearly how and why confidence in state paternalism has declined fatally in the past 15 years.

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* ***Doing Good: The Limits of Benevolence*, by Willard Gaylin, Ira Glasser, Steven Marcus, and David J. Rothman. Pantheon Books. 171 pp. $8.95 (cloth), $2.95 (paper).**

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THE problem is not only that many of the particular programs of the Progressives—such as aid to dependent children (formerly widows' pensions), penal probation, and the juvenile justice system—have largely failed to realize their initial lofty aspirations. Nor is it—although this too is important, and provides the theme of the eloquent and moving essay by Steven Marcus on 19th century English poor laws—a newly general awareness that public tinkering with the lives of the dependent may have consequences other than those intended. It is also that we have come to see the public "caring" agencies as serving primarily interests of their own which are not at the same time the interests of their clients. We do not presume, as the Progressives did, a non-adversarial relationship between social service practitioners and those upon whom they practice.

Last and still more fundamentally, the liberal-democratic "Americanism" to which the Progressives aspired to educate their wards no longer enjoys its former authority. Instead we are suffering through a general crisis of confidence in our society and nearly all its institutions. As a consequence, programs that seek to supervise the poor as well as support them smack not of benevolence but of "social control." Rather than working to perfect their grasp of these programs, we would do better to strive to restrict their reach. The Progressives called attention to the needs of the dependent, which only state agencies could serve. Their successors emphasize the rights of the dependent, which state agencies tend to neglect. Not that post-Progressives would have us neglect dependents needs; rather we must strip social service administrators of the vast discretion that they have hitherto enjoyed on the mistaken supposition that they have had only the best interests of their clients at heart. We must move from a parental to an adversarial model.

It is clear that Rothman feels the force of much of this "revisionist" critique. Where he does, he is almost painfully anxious to concede its validity. It is equally clear, on the other hand, that he is not altogether persuaded by it. "Not that one or the other approach [to the analysis of liberal social policy] is necessarily more intellectually fruitful. Rather, fashions have changed." What he sees as justifying this change of fashion is a specific requirement of liberal integrity: that liberals turn upon themselves the unforgiving glare of Lionel Trilling's "moral realism," "an arrow that [Trilling] once aimed at the far left." "Moral passions," he quotes Trilling, "are even more wilful and imperious and impatient than the self-seeking passions. All history is at one in telling us that their tendency is to be not only liberating but restrictive. . . ." This assertion gives one pause, and not only concerning Progressivism. For it is clearly the claim of the new reformers that where Progressivism has restricted, adversarialism will liberate.

If I must express some disappointment with Rothman's otherwise admirable essay, it is over his decision to devote most of his critique to Progressivism, which is down and out, rather than to what has replaced it. Although he does reserve a few misgivings for possible consequences of the adversary stance, these are not the trenchant

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and radical ones that a position of "moral realism" would seem to require.

The essays of Steven Marcus and Willard Gaylin resemble Rothman's in their studied and rather edgy ambivalence. Marcus's effort, already noted, eloquently confirms that there have been worse social policies than those of the American Progressives. If there is a lesson to be learned from the failure of the first modern British poor law, it seems to be that although the best-intentioned plans of men are rarely their best-laid ones, this will not save them from going awry: "The most important consequences of any intervention almost always turn out to be those that were not intended . . . or could not have been calculated beforehand." In keeping with this cheerless conclusion, Marcus abstains from the careful consideration of our current dilemmas that he somewhat lamely enjoins upon us.

To psychoanalyst Willard Gaylin falls the task of elaborating a general theory of beneficence towards dependency that is both convincing in itself and conducive to persuasive moralizing. Gaylin wants very much to reassure us that there is such a thing as natural benevolence toward the dependent—signed, sealed, and sworn to by science. So, drawing upon neo-Freudian psychology and post-Darwinian ethology, he expounds with loving care the relations of mother and newborn child—the initial and fundamental human dependency. The problem with this is that the more closely we attend to *social* responses to *social* dependency, the further we leave the glow of the nursery behind us. By the time Gaylin has finished listing the pitfalls of applying his maternal model to society's relations with its unfortunates, he has us wondering why he chose it as the text for his homily. Like ever so many secular sermons, Gaylin's is chiefly useful in reminding us of the difficulty of finding a replacement—ransack the cupboards of science though we may—for the notion that what we do unto the least of His children we do also unto Him.

IRA GLASSER is and sounds like the executive director of the New York Civil Liberties Union. This means first of all that he is a much more practical man than the others. He does not shrink from specific proposals for reforming current policies toward dependents, and these suggestions, if not particularly original, at least comprise a convenient catalogue of adversarial stances.

Glasser's approach to the formulation of welfare policy is a negative one. He tells us what we ought to do to prevent ourselves from doing what we ought not to be doing. His theme is the necessity of stripping welfare agencies of their mantles of spurious benevolence. He welcomes the distrust abroad in the land of governmental discretion as such. In this connection he invokes the Founders, and fans our dislike of Richard Nixon. He repeatedly likens social service professionals of every sort to policemen, whom he is fond of calling "cops," and addresses the question of how we can confine them to a short leash.

I have in no way exaggerated the animus of Glasser's presenta-

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tion. There is some justification for it. He presents more than enough horror stories from every walk of dependent life to convince us of the necessity of reform. But that necessity is not controversial. What should be is the method proposed by Glasser. Glasser commends a "Bill of Rights" plus a "least harm" test for policies toward dependency. The Bill of Rights, the full protection of which would be extended to every dependent, would define the limits of legitimate authority in dealing with such persons, as well as in other matters of state action. Within such limits, "those programs ought to be adopted that seem to be the least likely to make things worse."

Glasser's "least harm" test reflects his opinion that programs that seek to benefit dependents don't do them much good, and in the course of pretending to do good can do them much harm. His first example is the sensible one of the juvenile justice system; here he errs only in failing to explain why it should not be abolished altogether. His second, that of public placement with foster parents, is less apposite to his case. He is undoubtedly correct that too many children have been removed from their families. But what is needed in such matters is not that authorities be stripped of discretion, but that they employ it. In this, as in all cases of public dependency, no relevant test can be devised that will not require the utmost discretion on the part of those charged with applying it. What Glasser's treatment really implies is that to the maximum feasible extent all such discretion be vested in the law courts.

This and very much else become clear in Glasser's third example of his "least harm" principle. It is the now famous one of Willowbrook Hospital, in which U.S. Judge Orrin Judd expanded the right not to be harmed into a right to be treated, that is, a legally enforced right to be helped in whatever way a judge thinks you ought to be. (I am spared from saying much on this point by the fact that others have said it well. See, for example, Nathan Glazer, "Should Judges Administer Social Services?" *The Public Interest*, No. 50, Winter 1978, and Harry L. Miller, "The 'Right to Treatment,'" No. 46, Winter 1977.) As Glasser's approving treatment of Willowbrook makes clear, Rothman has told only part of the story of the current shift of emphasis from needs to rights. The "post-Progressives" do indeed invariably speak in the language of rights. But the real shift is from needs understood as needs to needs (or better, wants) couched as rights. The right to freedom from oppression or mistreatment somehow always issues in a positive claim against society for some privilege or service.

Rothman, in his concern to discard paternalism while retaining beneficence, asks, "Can we do good to others, but on their own terms?" The answer is no, at least not consistently and as a matter of social policy. In the case of the economically dependent, we can go so far as to set out flak-catchers to be mau-maued. In the case of the naturally dependent, it is often their incompetence to define what help they need that defines their need for help. The question of what terms of helping are reasonable and who will apply them cannot be abolished. Glasser's answer is straightforward:

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Judges will decide what terms are reasonable, and judges will apply them. The rhetoric of curbing the state's discretionary power will mask the concentration of that power in the hands of the judiciary. Should the judges falter at their task, "public interest" advocates will be at hand to prod them.

THE central plank of Glasser's platform is that "constitutional limits [are not self-enforcing] and therefore require an external force." The force that he has in mind is an army of "public interest" lawyers. What this canon of policy requires in practice, as Glasser notes ingenuously, is massive Federal funding for such advocates through laws authorizing judicial awards to them. O brave new world, that the interests of the dependent in it coincide so fully with those of Ira Glasser!

We won't let Glasser reply that he and his friends genuinely and truly do have the best interests of dependents at heart. It is just this argument that he forbids us to heed from anyone else who makes a profession of caring for the dependent. Power, even the best-intentioned power, corrupts—and so we must welcome the accession to it of Federal judges and "public interest" lawyers. Moral realism, anyone?

The rights of dependents pose a real problem, but the problem that dependency poses is not primarily a problem of rights. As Gaylin notes, the care that dependents require cannot be reduced to legal formulations. Nor can it be extorted by legal injunctions. The adversary stance is self-validating: It encourages (and, as Glasser unwittingly shows, may even drive) the custodians of the unfortunate to regard themselves as their adversaries. When that happens, no judge can save the situation.

Doing Good is an interesting book. The chapters by Rothman and Marcus in particular are lucid and incisive. But they are also striking for their silence when it comes time to put up or shut up on the question of the proper policies toward dependents. Whoever takes up *Doing Good* will not find any breakthrough in thinking about dependency. He will find instead that the best liberals, having become neo-liberals, lack all practical conviction, while certain others remain full of passionate meddlesomeness.

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The Uneasy Electorate

JAMES W. CEASER

HAVING decided 48 Presidential elections, the American electorate should by now have attained advanced middle age. But,

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like so many who have reached this stage, the electorate seems to be experiencing a small mid-life crisis. It recently abandoned its customary ways and, despite the urgings of politicians, has refused to settle down. When academic polling commenced on a large scale in the 1950's, the electorate was first seen to be very stable. Most Americans were willing to identify with a party, and most could be counted on to support their party's candidates. The two major parties, though drawing voters from all segments of society, each had a "rational" base of support in the socioeconomic structure: The Democrats were the party of labor and the poor, and the Republicans were the party of business and the wealthy. This stable behavioral pattern was reinforced by a nominating process in which professional politicians had the dominant power and normally used it to choose candidates who could hold their party's coalition together and maximize its chances for success.

Sometime in the mid-1960's, however, everything began to unravel, and analysts began to proclaim an end to the old electoral era. It was found that a smaller proportion of the electorate was committed to a party and that fewer of the committed were faithful in their allegiance. The socioeconomic bases of the parties were becoming increasingly confused, as Democrats gained more and more adherents among the well-to-do, and Republicans searched for a new constituency among white workers angered over increasing crime rates, moral deterioration, and state interference with their cherished ethnic communities. Less noticed by most observers, but perhaps more important to the long-term character of American politics, the nominating process underwent a fundamental transformation. The reforms in the Democratic party and the resulting (if unintended) increase in the number of primaries virtually eliminated the influence of party leaders and turned the selection process into a popular plebescite.

The 1976 election saw a slight reversal of some of these trends, perhaps enough to give pause to those who had proclaimed the dawn of an entirely new era in electoral politics, but hardly enough to allow one to speak about a restoration of the old political order. At most, the electorate of 1976 could be described as being in a state of fragile normalcy, reflected in higher rates of partisan fidelity, relative harmony among the factions within both parties, and the reemergence of the nation's supposed "natural" majority, the New Deal coalition. But signs of fragility were evident just beneath the surface—in Carter's support in the South, where many whites backed him because he was a regional favorite son, and in the North, where Democratic support among Catholics and Jews slipped from its pre-1968 level. Probably the greatest threat to normalcy, however, lies in the institutional framework for selecting nominees. The current system requires that aspirants seek the nomination by building a popular constituency, which normally requires them to adopt a strategy that provokes division as a way of attracting support. It is difficult, therefore, to view the harmony that emerged from the Democratic primaries as anything but a fortunate accident that oc-

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curred in spite of and not because of the present selection system. Indeed, when one analyzes the outcome of the nominating process in 1976 more closely, it is clear that Carter did not so much reassemble the New Deal coalition as avoid dividing it by running outside of it.

The strongest indication of the fragility of the current situation may be seen in the difficulties Carter has experienced in governing the nation. He entered office without the backing of any genuine constituency, in the sense of a structured group prepared to stick with him through thick and thin. Nor has Carter yet managed to build a coalition of constituencies. If he had sought to transform this situation into something positive and to articulate a strategy of ruling as an "independent" chief executive, we could then see whether a President actually needs the support of a solid coalition in order to govern. But Carter has not embarked on such a bold experiment. Instead, he has drifted aimlessly between two styles of leadership, sometimes making gestures at becoming a traditional coalitional leader and at other times posing as a populist, nonpartisan executive. Neither style has yet made a permanent impression, not the least because asserting one serves to undermine the other.

FROM all indications, then, effective governing still seems to require the support of a ruling coalition; and if this is the case, there is good reason to be concerned about the fluid state of current electoral politics. In an effort to explore the future of American party alignments, Seymour Martin Lipset has collected 22 original essays covering a broad spectrum of viewpoints and approaches.* The essays range in their source from academics like Nelson Polsby and Jerome Clubb to politicians like Jesse Unruh and S.I. Hayakawa, in their ideological inclination from the New Left (Tom Hayden) to the New Right (William Rusher), and in stylistic quality from the carefully crafted sentences of Gary Orren to the more colloquial idiom of Ben Wattenberg. One is tempted to say that only a genuine pluralist like Mr. Lipset could have assembled so all-inclusive a coalition. The great diversity contained in this volume may itself be the strongest piece of evidence in support of Mr. Lipset's central contention (which all of the authors do not share) that majorities in America, because of the nation's great diversity, must be made up of coalitions—i.e., of a number of groups having somewhat different and perhaps partially conflicting priorities. A single-interest majority based on a common adherence to the same principle is difficult if not impossible to achieve.

Lipset quite wisely decided to begin the volume with a number of essays on past realignments. These essays serve not only to sketch the necessary background to current voting patterns but also to provide some suggested responses to the general theoretical question of what drives the engine of American electoral transformation. Some

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* ***Emerging Coalitions in American Politics*, edited by Seymour Martin Lipset. Institute for Contemporary Studies. 524 pp. $6.95.**

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25 years ago, historians might have strained to discover the key in shifting economic conditions. But to the new wave of ethnocultural historians, represented in this volume by Richard Jensen and Paul Kleppner, the moving force is as much the deep-seated values of ethnocultural and religious groups as it is "rational" economic responses. The strength of these cultural values was greatest during the late 19th century, when North and South were divided by Civil War memories, and, within the North, moralistic "pietist" groups seeking to use public law to enforce their doctrines came into conflict with less-severe "liturgical" groups. The cultural conflict between these two groups was removed from the center stage of American politics after the election of 1896. McKinley forged a new majority coalition that abandoned the crusading moralism of the "pietists" and established a common economic interest in development and prosperity between business and some elements of labor. Even so, cultural issues continued to play an important role in American politics, and the Democratic party in particular was often ineffective as an opposition because of the irresolvable split between its "wet" urban Catholic and "dry" Southern Protestant wings.

McKinley's coalition began to fall apart under the strain of the Great Depression. Roosevelt seized this opportunity to make the Democrats the dominant party. Like McKinley, he made use of an economic crisis to submerge the cultural division within his party and constructed a majority based on a common economic interest. Unifying the new majority coalition of the worker, urban minorities, and Southerners was an appeal for justice for the "little guy," coupled with a fierce attack on the magnates of finance capital. This coalition provided the political support for Roosevelt's grand project to modify laissez-faire capitalism by laying the foundation of the modern welfare state.

The party alignment of the New Deal was, from the point of view of an economic interpretation, the most "rational" of all American electoral divisions. But the old ethnocultural divisions never fully died out, and new struggles over communal values, involving such issues as abortion, pornography, and the control of public schools, have arisen to play an important role. Indeed, though the original programs of the welfare state in the 1930's served to solidify the New Deal coalition behind the common goals of minimal welfare and economic security, the second phase of the development of the welfare state, as embodied in many programs of the Great Society, has provoked bitter cultural divisions among the coalition's constituent groups.

In what is clearly the most instructive essay in the volume, William Schneider has proposed a new theory of American voting behavior that attempts to give due weight to both the economic and cultural conflicts. According to Schneider, there are two basic lines of cleavage that help to explain the general trends in voting behavior since the turn of the century: a welfare-state axis (for and against an expanded role for the Federal government) and a cultural axis (liberal and conservative on such issues as civil rights, anti-Commu-

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nism, pornography, etc.). The welfare-state axis has been the principal division on which most Americans have based their partisan identification since the 1930's. The cultural axis, in contrast, has had little impact on partisan identification in the post-New Deal era, but it has nonetheless played a very significant role in influencing actual voting behavior.

While there is much to quibble with in Schneider's methodology, particularly his heavy reliance on the problematic tool of factor analysis, the overall theory marks an important improvement over most previous academic treatments of the subject. The dominant approach up to now has been to use the variable of partisan identification to fix a "normal" base vote; responses to particular topical issues and to the personalities of the candidates are then brought in to explain deviations from this base line. Schneider has not abandoned the political scientist's touchstone of partisan identification, but he has succeeded in putting it into proper perspective. By discovering a long-term axis besides partisan identification that explains voting behavior, Schneider in effect has rejected the entire notion of a unidimensional "normal" vote standard. If there is such a thing as a "normal" base line, it lies in some intuitive combination of the force of partisan identification and the response of voters to cultural issues. A precise "normal" vote cannot be established, because the relative salience of these two factors varies with the particular nature of each campaign.

At a more practical level, Schneider's approach corrects a false initial assumption that has marred so many previous voting studies. As long as partisan identification was taken as the only enduring base line in electoral analysis, there was a tendency to adopt the position that the majority party should win and that its failure to do so must be explained by special circumstances. Schneider's approach yields a somewhat different point of departure. The advantage that the Democrats have enjoyed on the partisan, welfare-state issues has been partially offset by the Republicans' usual edge on cultural issues. (This holds fully only for Presidential elections; in Congressional elections, the partisan dimension is more powerful, and the existence of multiple constituencies allows each Democratic candidate to adopt a position on the cultural axis that conforms with the dominant sentiment within his district.) Thus, in Schneider's view, a Republican victory at the Presidential level is not anything abnormal or extraordinary; it is accounted for within the basic framework of the theory. In fact, one might argue that the declining support of Republicans on the partisan axis has been more than compensated for by the shift since 1960 away from bread-and-butter issues to cultural issues, the 1976 election being a notable exception. More than the Democrats, the Republicans over the past decade—Watergate excluded—have succeeded in setting the agenda of American political debate.

THE focus of the volume then shifts to a consideration of the future of American politics. Scenarios and predictions abound,

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from the emergence of a New Right to a New Center to a New Left. Unfortunately, none of these essays bothers to draw any general lessons from history about the causes of past electoral transformations or to speculate about the status of predictions in this area. A consideration of the case studies of past realignments would probably counsel a much greater modesty about the possibility of prediction than many of these essays display. Studies of past realignments may provide a full explanation of the various forces that account for change; but these explanations are made in light of certain accidents of history or political decisions that in no sense could have been predicted beforehand. This is not to deny that certain tensions in an existing alignment cannot be discerned or that a range of possible outcomes could not be specified in advance. Yet in the final analysis, these only sketch a large circle within which the unpredictable governs—especially in the catalytic events that provide the shocks to cut loose masses of voters from their previous voting habits. Two such shocks resulted from economic depression (in 1894 and 1929) and two others from particular political decisions—the ratification of the Jay Treaty and the passage of the Kansas-Nebraska Act. None of these could reasonably have been predicted in advance.

Even if it were possible to foresee the inevitable collapse of a particular coalition, there is no way to know exactly how or for what purpose the pieces will be reassembled. The character of each new alignment is in large measure the product of a particular leader acting on the basis of his own political instincts and principles of statesmanship. In light of the discretion such leaders possess, it might be argued that far too much attention in the study of electoral politics is given to trying to predict the movement of voters and not enough to grasping the art of leadership that goes into forging coalitions.

There is another reason why prediction may be even more difficult in the present era. Paradoxically, this reason emerges from the work of Everett Ladd, a political sociologist who has claimed more for prediction than most electoral analysts. For Ladd, electoral transformation is explained by reference to basic changes in the socioeconomic substructure. Political sociology provides both the analytic tools for identifying the conflict groups and an intuitively rational account of their political position based on their "objective" economic interest. Thus, for example, politics in the New Deal era reflected the basic division of an industrial economy between business and labor, each of which had a different view about welfare-state policies and economic regulation. The evolution of the economy into a post-industrial era, however, has brought to the fore an immense white-collar class in the service and knowledge sector that apparently has no objectively assignable economic interest. Indeed, as Ladd describes this class, its distinctive form of political behavior is its "freedom" from opinions determined by a fixed position in the economic order. In one sense, then, political sociology—having identified the emergence of a major new group whose opinions are not governed by objective forces—has reached the end of its utility.

To the extent that one can say anything about the views of this

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group, they are strongly influenced by intellectual opinion, as it is filtered through university classrooms and the media. Ladd notes the dominance of left or liberal values among intellectuals, but he does not, like Schumpeter, assert a full-blown sociology of the intellectual class, according to which its values are said to be fixed by its position in the socioeconomic order. All that Ladd claims is an association between liberalism and the intellectual, the cause of which he does not specify. But if one rejects a purely sociological interpretation, then the alternative explanation would have to be that liberal values dominate among intellectuals because of the historical fact of the ascendancy in contemporary political thought of certain leftist theorists, most notably Marx. If this is the reason, then there is no *necessary* connection between intellectual opinion and contemporary liberalism, no matter how strong the present association. Intellectual opinions could then be said to have an autonomy of their own, and the debate between Left and Right would not be merely an exercise in futility. Its outcome, which is entirely unpredictable by social science, would be the single most important factor in determining the future of American politics.

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Welfare Arts

TOM BETHELL

PUBLIC funding of the arts is one of those subjects, like abortion funding and the status of women in America, about which reasoned discourse is rapidly becoming impossible. Not long ago President Carter was reported as complaining that he had been compelled to devote more time to considering his appointments to head the National Endowments for the Arts and Humanities (Livingston L. Biddle and Joseph Duffey, respectively) than to the SALT talks. With all the fervor of an Eleanor Roosevelt, Joan Mondale has taken up the banner of the Arts, and so has been dubbed Joan of Art. She appreciates the arts almost every minute of the day, she has let it be known, and one could wish her an honest Philistine to grapple with. Alas, none is in sight, only a "fiscal crisis."

According to Harold Schonberg of *The New York Times*, our biggest arts organizations "are in desperate trouble." Robert Brustein, former dean of the Yale School of Drama and former director of the Yale Repertory Theater (which receives an annual grant from NEA, albeit an "insufficient" one) flew to Washington a year ago, interviewed nearly all the most important arts bureaucrats, and wrote a lengthy account of his trip for *The New York Times*, concluding that there was a "crisis afflicting the arts." To complete the

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picture, one or two editorialists are beginning to complain that we have "no national arts policy," in much the same way that we were said to have "no national energy policy," until the Department of Energy was funded; and black groups have descended on the Arts Endowment with "demands" for more money for black arts groups. (They were "rude" and "hostile," said aides to Biddle.)

It is to Dick Netzer's credit, then, in this overheated atmosphere, that he has managed to produce a very dispassionate study of public support for the arts in the United States.* He succeeds in remaining only mildly enthusiastic about government funding throughout the entire book—to the point where he allows himself to worry at the end of it:

> Advocates for the arts may feel that this study is both negative and Philistine. They will perhaps find it negative in concluding that the record of public support for the arts is a mixed one and Philistine in its refusal to grant that the case for more public support of the arts is self-evident. Yet to count a major new government undertaking as a partial success is anything but negative: most of the new non-arts-related government programs initiated in the 1960's have been commonly evaluated as failures, completely or mainly so.

Government support of the arts in America began (if one discounts the creation of the Smithsonian Institution in 1846) with various New Deal programs, notably Federal Project Number One of the Works Progress Administration. In terms of number of artists and performers employed, works of art produced, guidebooks written, and monuments erected, it was highly successful. Netzer does not give us the overall dollar cost, but it was undoubtedly tiny in comparison with the multimillion-dollar budgets of today's arts endowments.

With the United States' entry into World War II, all WPA programs were halted, and public arts funding was all but forgotten until 1965, when President Johnson signed a bill establishing the National Foundation on the Arts and Humanities. The National Endowment for the Arts began that year, with a $2.5 million budget, over the opposition of the Republican Policy Committee, which said, "The arts and humanities are thriving today and will continue to thrive so long as the deadening hand of the Federal bureaucracy is kept from the palate, the chisel and the pen." That was about the last peep of opposition heard from Congress, whose members soon recognized that the tremendous benefits attendant upon being perceived as Patrons of the Arts far outweighed the (tiny) cost to the Republic. (For example, even those Congressmen who had not instantly perceived it soon realized that the opera-goer and the large campaign donor are very often one and the same person, who also appreciates not having to pay too much for his opera ticket.)

*** *The Subsidized Muse: Public Support for the Arts in the United States*, by Dick Netzer. A Twentieth Century Fund Study. Cambridge University Press. 272 pp. $14.95.**

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In any event, the Federal arts bureaucracy grew at a tremendous pace. In fiscal 1977, NEA's appropriation was $85 million. (The appropriation for the National Endowment for the Humanities, for some reason, is always a tiny bit smaller, say half a million or so.) In his customary response to the clamor of "crisis," President Carter recommended in his 1979 budget message that arts appropriations be increased by $26 million—the largest annual dollar increase yet for an agency with an almost unbroken record of large increases.

What has been achieved as a result of this ever-increasing government spending? Netzer approaches this crucial question with all the circumspection of an economist—which he is—who at some point in his life has been accused of drawing a rash conclusion from the available data and is determined that it will never happen again. The reader is forced to puzzle over complicated charts and sentences that read like this:

> If the price elasticity of demand is small, then rising labor costs in the performing arts can be offset by higher ticket prices with relatively minor reductions in attendance, probably resulting in marginally smaller attendance at each performance, rather than a reduction in the number of performances and thus in the output of the arts.

UNFORTUNATELY, this sentence is somewhat typical, and its hypothetical form is characteristic of Netzer's caution. (Elsewhere, Netzer writes that "the data indicate that demand *is* somewhat sensitive to price and does *not* rise so sharply with rising incomes as to compensate for rising prices.") In short, the book is written very much for the benefit of economists rather than art-lovers. "Aesthetic considerations" are carefully eschewed at the outset. Thus the subject matter of the book is excessively circumscribed.

One of Netzer's approaches is to compare the stated objectives of the arts endowments with what has in fact happened. This can be devastating. For example, the first objective of NEA is "to make the arts more widely available to millions of Americans." Low income is a barrier to wider enjoyment. Therefore, numerous free and reduced-admission-price arts performances have been given, courtesy of the arts endowments (Federal and state). The result? A nationwide survey in 1973 "revealed that people with incomes of $15,000 and above attended specified live performing arts (ballet and modern dance, concerts and opera, live theater) three times as often as those with incomes of less than $5,000." Netzer duly and drily notes his conclusion: "Subsidizing performances apparently has failed to increase the representation of low-income people in audiences appreciably."

Another way of putting this would be to say that arts-funding is in practice an income-transfer program for the upper-middle class. There is much support for this conclusion in Netzer's book, and for several other non-flattering conclusions about the welfare arts. Take the matter of symphony orchestras, which, as Netzer says, "played a major, and perhaps a decisive, role in pressing for the great leap

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forward in public support from the Federal government and the state of New York in 1970 and 1971."

The purpose of grants to symphony orchestras, Netzer points out, is not to "reform" the orchestra, to "change its function," to create new ones, "or to experiment with wholly different kinds of music performance or the presentation of new music." It is simply "to cover operating deficits." The effect of arts funding here may be said to be demonstrably the opposite of creative. Citing the "Baumol-Bowen thesis" (that public funding is now needed simply to keep arts organizations alive in the face of mounting costs, especially labor costs), Netzer rightly points out that "public intervention to prevent economic pressures from causing *any* change whatever in the arts is a *reductio ad absurdum*" of the thesis, guaranteeing that all creativity is stifled. In fact, this is one of the weightiest of all arguments against arts funding, although Netzer does not draw that conclusion.

As a part of his study of symphony orchestras, Netzer focused on the Charlotte Symphony, which began receiving NEA funds in 1972. He found that the "orchestra's performances increased, and its members' earnings rose . . . the external government support in a sense appears to have been a substitute for the private fund raising of other symphony orchestras."

Citing a Ford Foundation study of non-profit companies in five performing arts, Netzer says that there has been a considerable increase in the salaries of orchestra members, but that "public subsidy seems to have had little other effect on the symphony orchestras. It did little to hold ticket prices down or to encourage more paid attendance. . . ." In the case of the Philadelphia Orchestra (the country's most successful, financially), Netzer says, "subsidy may have enabled the orchestra to hold down the price of its best seats, but that too hardly seems a particularly worthwhile use of public funds and most certainly is not an announced objective of any government funding agency."

One begins to get a picture of stifled creativity, of civic leaders relieved of the financial burden that formerly devolved upon them to keep their city's cultural activities alive, of subsidized seats for fashionably attired first-nighters, and particularly of unionized artists and musicians pocketing a good deal more money than they would if exposed to market forces:

> Musicians, actors, and museum staffs can be expected to take into account the existence or possibility of public financial support in staking their wage claims. Increased public subsidy has contributed to the recent rise in militancy among some groups of professionals in the arts. . . . But these individuals are not the intended beneficiaries of public subsidy for the arts.

NETZER could well have devoted more attention to two important issues which he barely touches on, no doubt because they are essentially political rather than economic. The first is the oft-raised

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question: Is government subsidy likely to result in government interference in the arts? John Updike has recently pointed out that this is a danger not to be taken lightly, and in the present climate of opinion—overwhelmingly favorable toward public support—one can commend him for merely raising the issue. Netzer points out, in one sense correctly, that there is not much evidence of danger here: "Apprehension about Philistine legislators and elected officials straight out of H.L. Mencken's gallery, who would seek to censor avant-garde program choices, witch-hunt for obscenity and subversion, and generally favor the bland and mediocre" has been misplaced.

All very fine and true, to be sure, but it is also true that the endowments have recently been "politicized" and are now being run in accordance with "populist" rather than "elitist" sentiments. It is worth raising this issue because it has almost entirely dominated public discussion of arts funding in the past year. Netzer cites the well-publicized feud between Ronald S. Berman (the former chairman of NEH) and Senator Claiborne Pell, suggesting that Pell "apparently believes the two endowments are to a large extent in his charge and are obligated to act in accord with his predilections." This is probably exaggerated. What is certain is that, as in many other areas of public policy, power has shifted from the White House to Capitol Hill. It was essentially Pell and not Carter who appointed Biddle to replace Nancy Hanks. But it is unlikely that, as a result, NEA grants will become politically motivated, *except* to the extent that the pressure to spread the money around thinly at the "grass roots" will surely increase. Thus the "politicization" of the endowments is more than anything going to prove to be a function of their increasing size.

The future effects of public funding on the arts do not look good. There will be more and more money available, with more and more of it dribbled away to support amateurish efforts at the grass roots; there will be plenty of jobs for arts funders, of course. Symphony orchestras will be kept going in the same old way, and museums will be kept open. But public funding will play little or no role in encouraging future artistic creativity in America. It is the merit of Netzer's narrowly economic approach that he tells us at least some of the reasons why.

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Confessions of a Policy Man

LESLIE LENKOWSKY

In 1976, the Federal government spent nearly two billion dollars on research designed to identify and solve social problems. The

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rapid growth in these outlays from nearly negligible amounts (by Federal standards) in the early 1960's testifies not only to the expansion of the nation's efforts to end poverty, reduce unemployment, and accomplish other social reforms, but also to the spread of the belief that social science theories and methods could be useful in achieving these goals. A new age was seemingly at hand, even proclaimed by President Kennedy, in which the work of economists and other scholars would transcend the divisive issues of politics and show the way toward unprecedented prosperity and progress.

Ironically, as the research budget grew during the 1960's and 1970's, so did doubts about the real value of what was being produced. Introducing a volume published recently by the National Research Council, Lawrence E. Lynn Jr. wrote:

> Although the need for large-scale Federal support of social research and development is widely accepted, questions concerning its relevance to the making of social policy have become more insistent in recent years. What are we learning? Who is making effective use of what we learn?

Increased funding for social research seemed not to have purchased a corresponding gain in the nation's capacity to solve social problems. Moreover, far from reducing political controversies, social scientists have often become parties to them, perhaps most notably over the issue of school desegregation. If the United States had become, in Robert E. Lane's phrase, a "knowledgeable society," why were the results so disappointing?

Few people seem more qualified to answer this question than Henry J. Aaron. For more than a decade, he has been in the front rank of social scientists engaged in studying public policy. An economist, trained at Harvard, he wrote his doctoral dissertation on social security and welfare programs. After a stint on the staff of the Council of Economic Advisers, he became a senior fellow at the Brookings Institution. His writings have been anything but academic, concentrating almost exclusively on matters of public concern: welfare reform, housing subsidies, taxation, and so on. In 1977, he was appointed Assistant Secretary for Planning and Evaluation in the Department of Health, Education, and Welfare, and became, in effect, the largest sponsor of social research in the Federal government.

Thus, it is both odd and intriguing to find him arguing, in his latest book, *Politics and the Professors: The Great Society in Perspective,** that politicians should continue to sponsor social research —but would do well to pay less attention to its findings! "Policy makers and laymen," he writes, "should and do use research findings as only one among many kinds of evidence, including past research and commonsense beliefs, in deciding what public policies to support." Why such skepticism? Well, it is because Aaron lays a large share of the blame for the waning support of the goals and

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* ***Politics and the Professors: The Great Society in Perspective*, by Henry J. Aaron. The Brookings Institution. 185 pp. $9.95.**

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programs of the Great Society at the feet of social science. To be sure, he acknowledges other causes, especially declining public confidence in government resulting from the war in Vietnam and from Watergate. But as a policy man himself, he is troubled by the part research and evaluation played in undermining the "intellectual consensus" behind liberal social programs. "Neither the initial acceptance and enthusiasm for aggressive Federal efforts to solve social problems nor the present rejection of and reticence about such undertakings," he states, "are based on reliable information or on scholarly findings or indeed on the actual success or failures of the programs themselves." The Great Society neither was planned as well as its advocates claimed nor worked as badly as its critics have subsequently charged. Yet, the public impression that the programs of the 1960's largely failed, he says, is in no small measure a result of the undue attention paid social research.

From the history of the Great Society, Aaron draws two lessons about the uses of social science. On the one hand, research flows with the prevailing political tides at least as much as it influences them. A national mood congenial to activist programs, such as that of the early 1960's, will inspire social scientists to propose or endorse grand schemes for reform, far beyond their knowledge or competence. On the other hand, research can also encourage conservatism in social policy. Social science in a critical spirit reveals what is *not* known, shows what does *not* work, questions what had *not* been doubted. When this happens, policy makers prefer to act cautiously, or to seek guidance from less equivocal sources. Research and evaluation, advises Aaron, "corrode the kind of simple faiths on which political movements are built."

Like most social scientists, Aaron is a political liberal. He shares the goals of the Great Society—indeed, believes them still popular with the public. He does not wish to forsake social research, but neither does he want it again to misdirect or block "progressive" programs. "Today's faddish theory may turn out to be false," he warns, "and the chance that some other theory may be correct should not be ignored." When, as in the current skeptical view of the Great Society, social science conflicts with a liberal's version of "common sense," with the "weight of past evidence," with liberal "faiths and beliefs," it should not be allowed to prevail.

THIS advice could hardly be more at odds with the traditional notion of how research and evaluation should assist policy making—the conviction that the social sciences, no less than the natural sciences, could promote the nation's welfare by replacing opinion and superstition with fact and truth. The reality never did or could live up to this ideal. Daniel Patrick Moynihan was one of the first to point out that the social theories inspiring the "war on poverty" were based on flimsy evidence and were bound to produce disillusionment with the Johnson Administration's program. Aaron himself provides a capable account of the intellectual debates of the last decade over how to eliminate poverty, improve schooling, and

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reduce unemployment, and demonstrates that social scientists rarely knew as much as many claimed. Although he makes no serious attempt to trace the political impact of social science theories, the case against any slavish reliance upon so much inconclusive or contradictory research is compelling.

But this is not the same thing as saying that the value of research and evaluation in general is utterly negligible. Yet Aaron is pushed toward this extreme position because he dislikes the political import of some of the best research and evaluation done recently.

The primary impetus for the growth of spending on social research came from liberal social scientists, who believed that the findings would support a liberal agenda for reform. Using their claim to knowledge and skill as a means of overcoming their "political inexperience" (to borrow Michael Oakeshott's phrase), they saw the Great Society as a way to gain influence and to move the nation toward greater equality. To their dismay, the results of their efforts, as evaluated by social scientists themselves, have proven to be unhelpful.

The classic illustration of this sequence is the series of tests of the negative income tax. After trying and failing to persuade the Johnson Administration to propose a guaranteed income as a device for ending poverty, a group of social scientists in the Office of Economic Opportunity suggested that the government should conduct a number of experiments to see whether, as alleged, such a program would cause drastic reductions in work incentives among low-income workers. The idea was accepted, and with a good deal of fanfare the tests were begun in 1968. Results from New Jersey, North Carolina, Colorado, Washington, and elsewhere are now available. To the proponents of these experiments who had believed that the side-effects of a guaranteed income would be minor the findings give no comfort.

Providing a guaranteed income to families encouraged them to reduce the amount of money they earned. Instead of working, some family members devoted more time to education, raising children, and leisure. This in itself was not so astonishing. But what had not been expected was the magnitude of this "labor-supply" response. The earliest results from the New Jersey experiment had indicated that most of the reduction in hours worked took place among secondary earners—wives and children—and not among heads of households. Reanalysis of these data, as well as the findings of later tests, tell a different story. The results from Seattle and Denver, where the most extensive experiments were run, imply that, depending upon the characteristics of the income guarantee, between 23 percent and 55 percent of the total added cost of the program will go to replace money that otherwise would have been earned. Limitations inherent in all such tests probably make even this an underestimate.

While these findings were bad for the advocates of a guaranteed income, the evidence on family stability is still worse. Among those families in Denver and Seattle who had received aid at a level

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slightly below the poverty line, the rate of marital dissolution exceeded that of families in the control group (who received nothing) by 96 percent for whites, 67 percent for blacks, and 60 percent for Chicanos. If these results withstand the scrutiny of other researchers, they would substantially diminish the appeal of replacing the major existing welfare program, Aid to Families with Dependent Children (AFDC), with the sort of plan that was tested. Since AFDC assisted only single-parent families, it offered an inducement for low-income couples with children to separate in order to increase their combined incomes. Although no one knew how much of this really went on, the arrangement was, in James Tobin's words, "an insane piece of social engineering," and common sense dictated that it should be changed. The lesson from Seattle and Denver, however, is that *any* kind of financial support will serve as the equivalent of alimony for low-income women.

TAKEN seriously, these results would undoubtedly induce caution. But Aaron's advice is that the findings of experiments such as those on the negative income tax need not be taken seriously. Based on a relatively small number of observations, limited by time and place, they are possibly not the final word, and in any case are subject to several interpretations. Instead of liberating the public from the enslavement of old ideas, research such as this is more likely to confuse matters, thereby discouraging commitment and action. Far better, he implies, to trust in one's "faiths and beliefs" than in the uncertain truths and conflicting facts of social science.

One problem with this argument is that if policy makers in the Johnson Administration had not already been hesitant about proposing a guaranteed income, the tests would not have been undertaken in the first place. This was not untypical; in most areas of social policy the agenda put forth by social scientists and their allies was far more adventurous than most officials of the Great Society cared to contemplate. It was "common sense" and "faiths and beliefs," not social science, which prompted a conservative temper.

It should be emphasized that Aaron is no complete skeptic about the value of social science. His critique of earlier ideas about poverty, education, and unemployment is evidence that he believes later theories are more accurate, or at least equally deserving of consideration. The "sober attempts rationally to solve increasingly complex problems," which he favors, presumably require not only more common sense but also use of more reliable information. But when and how should policy makers decide to heed what their social scientists say? If they do so only when research findings support their own political preferences—as Aaron seems to be suggesting—what is the point of asking for advice at all? Indeed, unless some theories are better than others, why have assistant secretaries for planning and evaluation?

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The Social Scientist as Novelist

MARTHA BAYLES

ROBERT COLES once wrote, in *Farewell to the South*: "Maybe I managed to achieve temporary distance on one kind of difficulty by plunging into another." In the context of that book, this sentence refers to Robert Coles's movements back and forth between black and white New Orleans in the 1960's. But it might just as readily be describing the characteristic movement of his mind through the great mass of his knowledge about hundreds of people's lives, and the characteristic way those lives get presented to the readers of his books.

Very often a Coles portrait will begin with attitudes: a particular person's attitudes on a particular social issue, which are then fleshed out with detail from the person's life until, no matter how extreme they seemed at first, those attitudes become understandable. At this point the social scientist in us gets interested. Perhaps an insight is forthcoming, a conclusion about definable causes: What exactly produces attitude type X in person type Y? Then, in a moment, we are plunged in the opposite direction, as Coles reports the person speaking with empathy of those he had been vilifying. Whatever group was being hated is suddenly being understood. Weakness is transformed into strength, fear into fortitude. We are reminded that there is more to our subject—an individual life, after all—than a checklist of attitudes.

This plunge is pure Coles, the one most people notice. It irks some people, and pleases others, that he won't draw a single conclusion without afterward erasing it. Some criticize him for avoiding the difficulties of social science by plunging into something "soft"—which they usually call "complexity," "uniqueness," "concrete experience." Others laud him for breaking our stereotypes, social-scientific or otherwise, and letting out real human beings. But whether or not they value his work as social science, or value social science in the first place, most people agree that Coles, like many of the writers he admires—James Agee, Flannery O'Connor, William Carlos Williams —is a true observer and sensitive recorder of individual lives.

So the novelist in us gets interested. Not minding the plunge out of social science, we read on for the sake of complexity, uniqueness, and concrete experience. We read on for the sake of the story, hoping to encounter our subject more deeply, as someone with pains and pleasures, a past, a philosophy, a soul. But—particularly in Coles's later books—this has been far too often the occasion for still another plunge, out of such considerations, into what can only be called class-consciousness. The Southern segregationist stops denouncing "niggers" and starts denouncing "those Yankee bankers" who "own us all." The black child perceives that the big shots and "rich people," not the Klan, "run the world." Whatever we may think of class-consciousness (we may think it's a good thing) there's no

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denying that the individuals under study have eluded one generalization only to fall into another.

Yet there is a persistent novelistic impulse in Coles, more apparent in his most recent *Women of Crisis** than in any previous work. *Women of Crisis* contains five "lives," four of which are cast entirely as stories, without the digression, rumination, and expatiation that so weedily thicken Coles's earlier work, *Children of Crisis*. Maybe this is because the book, the first in a new "Radcliffe Biography Series," is about adults and not children. Maybe his wife Jane (here named as co-author for the first time), or someone at Seymour Lawrence (a new publisher), wanted to keep it brief. Maybe because it is about women, and women's private lives are the stuff of sociology and politics nowadays, it made sense to give those lives a sustained narration. Whatever the cause, Coles has a chance to do in this book what many people agree he does so well—tell stories. And in all candor it must be said that he tells them badly.

Coles once said that years ago his wife advised him to stop drinking bourbon and trying to imitate Agee's style. Good advice, which for the most part he has followed. About his literary ability, he is nothing if not humble. Nevertheless, it is interesting to view him as a sort of novelist *manqué*, if for no other reason than the fact that he seems to claim many of the novelist's prerogatives, among them the right not to conclude, not to generalize, and not to put forth any definite program, political or otherwise.

In exchange for not doing any of these useful things, novelists and other literary artists promise to attempt what Agee calls "embodiment." With bodiless words they try to touch our bodily senses with weathers, accents, odors, and colors; the changes of light on the faded boards of a sharecropper's shack; the postures in sleep of aching bodies. They labor long and hard, as Flannery O'Connor has said, with dust.

Not so Robert Coles. For one thing, all five "women of crisis" talk alike. In the Florida migrant labor camp, the Kentucky hollow, the *barrio* in San Antonio, the Alaska tundra, the neighborhood in Boston, they all talk alike. This is Coles, who admires William Carlos Williams for "being in love with his patients' ways of putting things." Yet he doesn't attempt to convey people's grudging, willing, windy, pithy, actual ways of putting things; rather he gives us standard English, ratatatat, in dead earnest. We get no feel of what it must have been like to listen to the stories given slowly, bit by bit, over the years. We get no Miss Jane Pittman, gnarled to the root like her great gnarled tree. Nor any other incarnated shape. These women testify not only without recognizable voices, but without recognizable faces. Like informers at television interviews, they hide their identities in shadows. Coles has written that a Hopi child will take elaborate pains painting the exact outline of a cloud, in the belief that clouds are inhabited by spirits, and that painting one in-

* ***Women of Crisis: Lives of Struggle and Hope*, by Robert Coles and Jane Hallowell Coles. Delacorte/Seymour Lawrence. 291 pp. $10.95.**

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accurately or indistinctly would offend its spirit. Yet his own painting of people and their surroundings has always been weak and diluted, his language so watery it runs off the page, taking with it the look, sound, smell, taste, and feel of things.

There are other ways Coles appropriates the novelists' ground, so to speak, without attempting their labor. In "Privileged Ones" (Volume 5 of *Children of Crisis*), he admits not only to his usual editing, condensing, and juxtaposing of the words of children, but also to "making composites" of them. Presumably he does this to make a point, unless he is concerned to protect the privacy of the affluent families he is writing about. Either way, he is surely not attempting to "create character" in the fictional sense; there is no mark of such an effort. The fact that he resorts to such cutting and pasting at all—if only with the affluent—ought to undermine our trust in him as a faithful observer. Although there is no evidence that the "women of crisis" are composites, they are certainly not the clouds in the sky at a random hour, either. They are special cases, selected for their steadfastness, self-awareness, modesty, and bravery. Extreme poverty may have defeated others around them—made them weary or oblivious or degenerate or fearful—but such defeat is mostly a backdrop against which the chosen lives shine. Coles is making a point, a proper rejoinder to determinist theories that would ascribe to all the poor without exception certain necessary failings of psyche or character; and in that sense his is a gesture toward realism. He would restore to social science the idea of free will, of a depth of choice in people who are not just pathologies or victims. But to prove the existence of choice, must every choice be exemplary? Here he is up against the dilemma encountered by anyone wishing to write about oppressed people: whether to portray heroes who rise up against injustice, or victims who succumb. The only resolution, of course, is the irresponsible one of literature: to portray with equal interest those aspects of life that spill beyond the bounds of what Coles would call "struggle." It is irresponsible because at times it forgets, evades, or even accepts the harshness of circumstances, for the sake of other things. This Coles refuses to do. Every act, reflection, and dream in *Women of Crisis* is kept within the bounds of class or sex-role consciousness. The spiritual impulses or personal passions of people are at best subplots to the main story, the socioeconomic one, with its denouement of thwarted or achieved upward mobility and altered sex roles.

Thus, although the book appears to be novelistic in its goal—the complexity and concreteness of individual lives—it fails to deliver either immediacy of experience or descriptions of people much beyond their virtuous choices and epiphanies of raised consciousness. Yet there is a striking exception, a place where despite the thinness of its language, its elements combine with the sudden unexpected rightness of good fiction, as though the life itself were the point. This is the story of Ruth James, the migrant worker, and her crew leader—"a fat sassy nigger" who starts as her exploiter and ends as her benefactor and friend. Needless to say, however, it is not Coles

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who calls him "a fat sassy nigger," but she. It is not Coles who describes his lechery, greed, and arrogance, but she. It is she who finds in him a quirky little vein of decency, nevertheless, and respect for something besides himself. And it is she who mines that vein and gains that respect, for her own survival. In this gallery of portraits he is salient and moving, no victim and certainly no hero—a force to be contended with, in the eyes of Ruth James. Her eyes make all the difference, of course, because they supply the crucial element that Coles never supplies: outright subjectivity. In this case subjectivity takes the form of antagonism: The crew leader is vivid to her, and therefore to us, because he is dangerous. But it needn't take that form. In the case of James Agee, subjectivity is in the form of infatuation with the place and the people he visits. He dares to describe (in *Let Us Now Praise Famous Men*) his feeling for a young girl who must leave her sharecropper family and return to a husband she hates. Agee is the observer with the notebook, but he is also the young man on the porch with the pounding heart, trying to say goodbye decently and love the girl at the same time. It is this outright use of the heart as a tool of the trade that most distinguishes the artist—either novelist or observer—from someone like Robert Coles. For unlike Ruth James and James Agee, he doesn't trust that part of himself particularly, or use it when telling a story.

YET surely he isn't heartless. Like the authors he admires, he is willing to "cross the tracks" and write about "ordinary" people. But unlike them, he will never be irresponsible. He will never bring himself to write about people with anything approaching the insulting accuracy of these authors, or their ardent tenderness. His posture is always stand-offish, self-effacing, as though his own responses were forces to be constrained, not instruments to be used, and refined through use. He will never call anyone "a fat sassy nigger," the way Ruth James does. Of course the explanation for this is that he is white, unlike Ruth James—and white people don't have access to that insulting yet familiar use of the word "nigger." But perhaps this small explanation is germane to a larger one, about race and its protocol as a source of his constraint.

When Coles studied the first "children of crisis" it was in New Orleans, in 1960—an atmosphere drenched with racial hatred. He and his wife were the only white people some of those families ever saw who weren't out to threaten or vilify them. Chief among his "advantages" in the eyes of that time and place—and hence in his own eyes, a disadvantage—was his whiteness, which conferred advantages that were utterly undeserved, utterly untransferable, utterly unshakeable. Perhaps this first relation to the poor was formative, causing him to regard everything about himself—not just the advantages of color and class, but of education and professional training as well—as though they were the same sort of thing, morally and socially, as being white in the segregated South. Whenever he is confronted with someone who lacks any of these advantages, he anxiously effaces all of them. He throws up his hands—his advan-

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tages are all contaminated, all for naught. He broods about them. He seems to forget that education and training have an enlarging effect when brought properly to bear upon the courage and humanity of the poor. He seems also to forget that he wasn't literally born with these advantages, that he chose to acquire them, and that others can acquire them, too. They are not the same badge of socially-decreed bogus superiority that whiteness is, and by harping upon them as if they were, he does a disservice to himself and to everyone else—not least the poor and "ordinary" person who is striving to acquire them.

As a social scientist, Coles refuses to trust his intellect. He disowns all generalizations and abstractions in the name of complexity and uniqueness. But these are themselves abstractions, unless they are incarnated. And it takes passion to incarnate: the fiercely selfish, sensual, possessive, nostalgic passion of an artist. Surely we can see why, in the 1960's, he would not allow himself such feelings in the presence of small black children daily abused by white adults. But neither has he allowed them since. His shame at being white appears not to have faded. Indeed, it appears to have spread—with a corrosive guilt and self-effacement—into the rest of his work. Most of his critics perceive it as a refusal to study, a retreat from science into something "soft" and "literary." But literature is served no better by shame that keeps a writer from trusting or using all the tools at his disposal, including his sensibility, his subjectivity, himself. Robert Coles refuses not only to study but to touch the child, woman, or man in front of him—for fear that someone will think he means harm.

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Race and Economics

WALTER E. WILLIAMS

For the modern economist, the basic problem with the general literature on racial discrimination is its failure to discuss or even to consider the effect of prices or costs on individual decisions. Bias alone merely expresses a willingness to discriminate, but does not determine the degree of discrimination achieved. We therefore must have not only a measure of willingness to discriminate but a measure of ability to discriminate as well. One measure of ability is the amount of income that must be sacrificed in order to indulge a racial bias; what is sacrificed is usually referred to as the price or cost. A generally accepted postulate of human behavior is the Law of Demand: The greater the cost of indulging a particular bias, the less it will be indulged; the lower the cost of indulging that bias, the more it will be indulged.

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The importance of the Law of Demand to racial discrimination can be seen through a trivial yet intuitively appealing example: A racist may go to considerable lengths to avoid physical proximity to a black at a restaurant or theater, but that same racist, ignoring physical proximity, may readily jump into a foxhole with a black under battlefield conditions. No one would explain this change in behavior by saying that the racist was no longer biased. Instead, what has happened is that the costs of indulging his bias have risen.

William Julius Wilson's *The Declining Significance of Race*[1] makes an important departure from the general sociological literature by viewing racial relationships and differences as having significant economic components. No one disagrees that legalized racial inequality has now been virtually eliminated in the United States. Wilson, as well as others, cites the economic opportunities afforded blacks in private industry and government that resulted from the civil rights movement and subsequent Federal and state legislation. However, Wilson advances the hypothesis that the problem for blacks today is no longer legalized racial inequality but the new barriers, especially for the black underclass, imposed by structural changes in the economy: the decentralization of business, which has led to considerable movement to the suburbs; a general decline in demand for low-skilled labor; and the financial problems of the central cities.

But these factors, which Wilson cites as causes of the problems of the black underclass, are really symptoms reflecting more basic economic forces. Wilson hints at these underlying forces in his comparisons of black-white unemployment ratios: "Blacks actually fared better in relation to white unemployment prior to 1950. A black/white unemployment ratio of 0.90 was reported in the 1930 Federal Census report, and one of 1.18 in the 1940 report. In 1948 and 1949, the first two years that official annual employment statistics were recorded, the rates were 1.68 and 1.59 respectively." If these statistics are analyzed by age groups, a quite remarkable finding emerges. In 1948, black youths aged 16 to 17 experienced *less* unemployment than their white counterparts. In the same period, blacks as a whole had a labor-force-participation rate that equaled or exceeded that of whites. That is, in the racially "unenlightened" past, black unemployment, particularly among the young, was not the severe problem that it is today. This fact should cause social thinkers and policy makers to ask the obvious question: Why have black employment opportunities deteriorated so precipitously when there has been an unprecedented "social commitment" to minorities?

VERY few analysts have considered one obvious answer: the numerous laws that have the effect of reducing employment opportunities (Wilson mentions them only in a footnote). The minimum-wage law, for example, reduces opportunities for low-skilled

[1] ***The Declining Significance of Race*, by William Julius Wilson. University of Chicago Press. 204 pp. $12.50.**

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workers because it requires firms to pay an hourly wage that exceeds the hourly output of some workers. Although there is considerable controversy in the economic literature over the *magnitude* of the effects of such legislation, there is overwhelming agreement on the nature of its impact. The minimum-wage law discriminates racially because youth, and particularly minority youth, tend to be the least-skilled workers; they are further handicapped by relatively inferior education. It is no accident that they are most disproportionately represented on unemployment rolls. (It is important to keep in mind that low skills explain low wages but *not* unemployment—unless there is some barrier to market entry.) Wilson cites evidence to support this theoretical analysis: When there was no minimum-wage law or when its level was quite low, blacks did not experience as much unemployment as they do today. But what Wilson cites as the decline in the demand for low-skilled labor is actually a result of the rising price of labor relative to other productive means. (This increase, of course, also gives firms an inducement to automate.)

A number of other minority problems that Wilson cites are related to the minimum wage. He says that more "rigorous prerequisites" and a higher level of credentials are needed in today's labor market. One reason is that since employers have to pay higher wages, they naturally seek employees with higher skills; in many instances, the requirements are not critical to job performance, but act as a screening device. There are other forms of market barriers that discriminate against the disadvantaged, such as licensing of occupations and businesses, Federal and state regulation of industry, and national labor law. These laws have a common characteristic: They reduce market competition and make market entry more dependent on the *personal* attributes of the entrant. To the extent that Wilson has ignored these issues or only treated them lightly, his book has important shortcomings.

The most serious flaw in Wilson's view of black problems, however, is found in this proposition: "Instead of reinforcing racial barriers created during the pre-industrial and industrial periods, the political system in recent years has tended to promote racial equality." This proposition is highly debatable—particularly if it is true, as many analysts believe, that market-entry regulations are *political* acts that have made it increasingly difficult for the black underclass to enter the mainstream of American society. (See, for example, Simon Rottenberg, "The Economics of Occupational Licensings," in *Aspects of Labor Economics,* National Bureau of Economic Research, 1962; and L. B. Shimberg *et al., Occupational Licensing,* Public Affairs Press, 1972.) Wilson's attempt to analyze the labor-market problems of blacks in terms of either the Marxian concept of the "reserve army of the unemployed" or the more recent theory of the "dual labor market" is unsatisfactory. Neither of these theories adequately explains why the labor market fails to "clear"—why there is unemployment.

The strength of Wilson's text is the recognition that the conflict

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for blacks today is one of class rather than race. Federal programs such as equal-employment legislation and affirmative action have helped more privileged blacks, with the unintentional effect of contributing to growing economic-class differences within the black community. (The mere fact that there is an ever-increasing economic division among blacks is historically trivial. Would anyone expect that blacks would differ from other ethnic groups that emerged from the ghetto layer by layer and not as a group?) In that conflict, privileged blacks have interests quite similar to privileged whites. The pursuit of these interests often works against the economic interests of the underclass, which at this moment in history is disproportionately black. In market terms, privileged blacks can be predicted to support laws that create and/or perpetuate restrictions on entry into the economy. Herein, I believe, lies the real conflict between privileged and unprivileged blacks.

By contrast with Wilson's interesting study, *Protest, Politics, and Prosperity*[2] is quite in keeping with the standard literature on racial discrimination and black/white socioeconomic differences; the book is not much more than an updated version of the Kerner Commission Report. The authors simply make the familiar argument that the problem confronting black Americans is that white Americans dislike them. Moreover, there are so many errors of logic and fact that to touch on all of them would require much more than a short review.

Some of the myths perpetuated by the authors, however, should be dispelled. For example, they assert that "it is significant that the Congressional Black Caucus is one of the main supports of full employment legislation and other measures designed to insure blacks their share of jobs whatever the state of the economy." What the Congressional Black Caucus actually does is give political support, almost unquestioningly, to the lobbying efforts of organized labor. But organized labor benefits from policies that tend to *restrict* entry to the job market, while blacks who are outside of the mainstream benefit most from policies that *free* entry. Black leaders of the past understood this quite well. Booker T. Washington was a lifelong foe of trade unions. W.E.B. Dubois called them the "greatest enemy of the black working man."

The blacks who benefit from union activity are those fortunate enough to be union members. According to the 1967 *Survey of Economic Opportunity*, 27 percent of non-white craftsmen in construction trades belonged to unions. More recent Equal Employment Opportunity Commission data show that 7 percent of the membership of the referral unions of the building trades are blacks, who are mostly in the lowest-paid trades. Much of the labor policy that black political leaders support thus benefits the few blacks

[2] ***Protest, Politics, and Prosperity: Black Americans and White Institutions. 1940-1975*, by Dorothy K. Newman *et al.* Pantheon. 384 pp. $15.00 (hardcover), $4.95 (paper).**

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who possess the requisite skills, at the expense of the many more unskilled blacks. It is simply a myth that what is in the best interest of organized labor is always in the best interest of labor in general and black labor in particular.

The authors, as well as many others, also suffer considerable confusion from the use of median-income statistics to measure black/white economic differences. In 1947, blacks earned 51 percent of white median family income, and the authors lament the fact that by 1975 blacks earned only 62 percent of white median family income. However, although measuring median family income by racial groups may provide some insights, it can be disastrous as a policy guide and as a way to evaluate economic progress. Such an aggregated statistic contains no information about the distribution of income, nor does it give important economic and noneconomic characteristics about the different groups being compared.

One of the most important differences is that blacks as a group are considerably younger than whites as a group. This fact is important for determining what can and what cannot be attributed to racial discrimination. Age, as we know, is highly and positively correlated to income. The median age of blacks is 23, while that of, say, Italians or Irish is 36. So even if blacks were otherwise identical to whites, had identical lifetime-earnings profiles, and experienced no racial discrimination, their median incomes would still be significantly lower.

The authors also frequently mention that the median income of black male college graduates and professionals is 75 percent of that of their white counterparts. Racial discrimination and/or poor socioeconomic status are usually invoked as an explanation for this income differential. However, one of the best-kept secrets of all time is that the median income of black *female* college graduates and professionals is *125 percent* of their counterparts! Furthermore, parity between black and white female professionals was achieved in 1960—*before* the Civil Rights Act and affirmative-action programs. While I cannot offer a satisfactory explanation for this finding, it would appear to call into question the usual explanation for income differences between black and white professionals, since black females share the same socioeconomic environment as their black brothers. My own preliminary inquiry shows virtual parity across professional occupations for black and white females. Female professionals are most often found in non-university teaching —46 percent of black and 41 percent of white female professionals are in that category. Black male professionals are also most often in non-university teaching—21 percent—while only 12 percent of white male professionals are in that category. The largest occupational category for white male professionals is engineering, while only 5 percent of black male professionals are in engineering. According to the 1970 Census, the median income of engineers was $13,149, while that of non-university teachers was $8,711. This suggests that even if blacks and whites earned the same income in each occupation, there would still be significant earnings differences

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in the aggregate because of occupational differences between black and white male professionals. One clear implication is that for black females, sexual discrimination is not compounded by racial discrimination.

The importance of recognizing significant differences within the black population is that a broad-brush economic policy to promote "economic progress for blacks" will not help all blacks identically. As most evidence indicates, the major beneficiaries of the massive Federal expenditures of the 1960's and 1970's have been the relatively advantaged members of the black communities and not their highly disadvantaged brothers. Moreover, recognizing differences in age and occupational preference saves us from ineffectually searching for racists in the effort to eliminate income differences.

THE book is flawed in other respects as well. The authors of *Protest, Politics, and Prosperity* assert that by 1975 blacks had virtually achieved educational parity with whites: "Blacks had achieved 94 percent of whites' educational position . . . but whatever the year, black occupational position did not match their educational position." Such a statement borders on naïveté, if not foolishness. What has been achieved is parity in *years of schooling* between blacks and whites. But equality in years of schooling is not the same as, and may bear little relation to, equality in the possession of market-relevant productivity characteristics. Considerable evidence shows that elementary and secondary credentials received by many blacks are, for the most part, fraudulent.

The authors do discuss credentialism and point out that formal education is not absolutely necessary for the performance of many jobs. Here I concur with the authors. However, they view credentialism as an evil plot, when it is instead a predictable result of the kinds of labor policies that are widely supported in the United States. When employers are required by law to pay non-market-clearing wages (e.g., minimum wages, union wages, etc.), they also have an economic inducement to seek the highest-skilled workers for those wages. Wage laws thus foster discrimination against workers with low skills or low-quality credentials. Furthermore, higher-skilled workers, white *or* black, find it in their interest to support employers in raising job requirements, so that their jobs are protected from competition.

In the same chapter, the authors assert, "If any more proof is needed that persistent high black unemployment rates and lower-paying less prestigious jobs are not a matter of poor or less education, but of prejudice, it can be found as close at hand as the nearest shopping center." The so-called proof offered is that the Western European labor force, consisting of many unskilled foreign workers, is employed in the kinds of jobs for which many American employers require a high-school diploma. But the authors seem unaware that there is considerable wage flexibility in many European countries. More significant, they completely ignore the fact that black unemployment in the United States was considerably

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lower in the past than it is now—in some cases, lower than white unemployment at times when blacks were *less* educated, and racial prejudice was more prevalent.

The authors' analysis of housing problems faced by minorities is equally misleading. Their chapter, "But Not Next Door," is couched in terms of good guys and bad guys, without suggesting the complex set of socioeconomic factors at work. Racial discrimination does exist in housing, mostly in rental property. But the bulk of the problem has its origin in income differences. The situation today is very different from the past, when there were legal and extralegal barriers to prevent blacks from moving into white neighborhoods. For the most part, housing patterns today reflect homogeneous association among people based on *class* and *income*. To the extent that race and income have been and still are highly correlated, it is very easy to confuse income phenomena with racial phenomena.

It is somewhat ironic that people like the authors, who advocate more housing for blacks, should find the "blockbuster" so distasteful: "Both races are victimized by the blockbuster. Whites receive too little for their property and blacks are forced to pay an exorbitant price for it." However little blockbusting contributes to racial harmony and respect, and whatever one's moral view of the activity, it is indisputable that, in the presence of racially discriminatory homeowners, it *increases* the supply of housing available to minorities. The homeowner who really bears the cost of blockbusting is the one who prefers not to live next door to blacks.

In the same chapter, the authors discuss "redlining" by banks as a discriminatory device. They fail to understand that the problem is not that banks do not *want* to lend in certain neighborhoods, but that legislators mandate maximum interest rates that have the effect of saying that if someone fails to qualify for, say, a 10-percent mortgage, he is not deserving of a loan at all. So it is really not the banks but the legislators who are the villains.

For the most part, *Protest, Politics, and Prosperity* addresses the moral or philosophical arguments surrounding racial problems, when what is really needed is cause-and-effect analysis to judge the consequences and cost-effectiveness of various public policies. No one likes differences among the races in socioeconomic status and opportunities, but—like economic recessions or traffic accidents—they may not be the result of evil forces. Instead, they may result from complex forces under the control of no one.

The racial problems that confront America are real. Significant progress has already been made, although there is plenty of work ahead. But we will not make significant progress by merely explaining problems in terms of "racism," as the authors of *Protest, Politics, and Prosperity* have done. The mistakes and mischief resulting from this approach can already be seen now, when behavior once attributed to racism—such as "white flight" to the suburbs—is engaged in by blacks, who are now fleeing to the suburbs for their own reasons. Increasing evidence, which the authors choose to

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ignore, suggests—as William Julius Wilson affirms—that race is declining in significance as an explanation of economic differences.

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The Collegiate Miscellany

WILLIAM J. BENNETT

"It is notorious how metaphysical was the passion that drove the Puritans to these shores; they went there in the hope of living more perfectly in the spirit." The ambition thus described by Santayana may be somewhat dimmed in certain quarters of national life, but education is not one of them. "In the campaign for character, no auxiliaries are to be refused," President Eliot of Harvard said in the 19th century, and in their new study of the last decade of higher education in America,* Gerald Grant and David Riesman point out that anything and everything have been tried and nothing refused in the effort toward spiritual reform and revitalization of the American college.

David Riesman, Professor of Social Sciences at Harvard and best known for his book *The Lonely Crowd*, is, as a colleague of mine recently described him, a major national resource. Gerald Grant, for years education editor of *The Washington Post*, is an extremely able collaborator. The chapters written by Grant reveal wit, experience, and—most important in a treatment of education—a balanced sensibility, an eye that detects puff posing as profundity, and an awareness of distinctions that make a difference and those that do not. The result is a body of information that is sure to be the best and most reliable guide to the past decade of educational reform.

The greatest strength of the book is the information that it provides; it tells you why everything you thought was true about higher education is true. It is an invaluable source book for anyone who wants to tether opinions to facts. In its wealth of stories, anecdotes, and other details, the book grounds speculation and gives evidence for judgment, whether or not it agrees with that of the authors. One of the strengths of the book, and much to the authors' credit, is that they have presented such a full and fair assemblage of evidence that it is possible to disagree with them on the facts they themselves provide. If the book has a weakness, it is that the authors may be too sympathetic to some of the institutions surveyed.

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* ***The Perpetual Dream: Reform and Experiment in the American College*, by Gerald Grant and David Riesman. University of Chicago Press. 382 pp. $15.00.**

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It is said that every anthropologist loves his tribe, and Grant and Riesman are sometimes hesitant to rough up institutions that have hosted them over the last 10 years. This is good manners on the part of the authors, but similar restraint is not incumbent on the reader.

In looking over what can be learned from a decade of experiment in the American college, Grant and Riesman focus on what they call "telic reforms," efforts that "set forth new ideals" differing from those at "regnant research universities." Such reforms often proceed from a distinct view of the good life and the belief that colleges are to play a major role in leading the student to appropriate self-realization in it.

It may be the good life in a "Platonic" mode, as manifested in the "neoclassical revival" of St. John's, which the authors characterize as both "arrogant and humble." It is arrogant in its confidence that reading Plato and the Great Books can account for the difference between a century of folly and a century of wisdom. Eschewing the "practical" and believing that education is generally "dulled by expertise" and "tainted by careerism," the tutors at St. John's put themselves and their students through a demanding regimen of reading of the major thinkers, methods, methodologies, and ideas of the West.

But Grant and Riesman ask whether St. John's simply identifies the "good with the hard" and note that students leave the school in droves; only 50 percent of the freshmen stay on to graduation. They question whether saturation in the wisdom of the Great Minds, and constant reinforcement of the notion that respect is owed the great voices, may leave students without a voice of their own. Socrates, for example, has a special status at the school. In the St. John's version, Socrates only asks questions and forever claims he has no wisdom. Since he is the model of models, tutors are also expected to ask questions and not to profess, "to elicit opinions, not to offer them." Some tutors grow tired of merely listening and questioning, but out of respect for what St. John's is trying to do there is little deviation from this model.

Overall, Grant and Riesman give St. John's good grades for a program that provides intellectual perspective, is morally scrupulous, has high standards, and subordinates the "imperial self." St. John's provides a "carthartic for hubris." But they fault the program for its lack of attention to any specialized skills, for not taking facts seriously enough, and for failing to "take account of the contingencies of the single human soul." The Program (always in caps) has virtues but it is sometimes "oppressive."

At the opposite extreme, except in terms of intensity of belief, is the putatively "humane" and "cooperative" environment of Kresge College, Santa Cruz, which, as the authors point out, should be called Carl Rogers College after its intellectual—rather than its fiscal—sponsor. In the "communal expressive" approach at Kresge, there are no requirements of the St. John's type; originally, the only requirement at all was an orientation program consisting primarily of encounter sessions, where, among other things, students approach

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people who "turn them on" and tell them so. The curriculum, which features such wonders as astrology, and "Yin, Yang: Prisons and Political Prisoners," reads as if Woody Allen were the Director of Studies. Even a "straight course" like Greek Mythology involves students in slaughtering and roasting a lamb and spending the day drinking wine.

The informing vision of the college is expressed in the words of one of its founders: "If you get high on LSD and walk into the dining room and sit down anywhere . . . [the] people there would be your family and would take care of you, and they would talk straight to you." Or, in the words of the poet Brother Antoninus, né William Everson, the purpose of Kresge is to enable students to reach into the subconscious to "their still point" and "discover their true archetype in a Jungian sense." On their visits, Grant and Riesman are scolded for not engaging in an encounter of feelings with the Kresge community. In one interview session, they are made to wait while the "faculty" and students watch and dance to the *Wizard of Oz* on television. Grant and Riesman politely conclude that the founders and visionaries of Kresge are seeking a kind of religious certainty. The authors offer the trenchant, if muted, judgment that Kresge puts too much emphasis on feelings and tends to collapse the public and the private realms.

Not so at the College of Human Services, the "reformers' school." No psycho-babble is tolerated in this "no-nonsense" approach to "changing human-service institutions so that they become more responsive to human needs." Nurtured by an "activist-radical" political ideal, the college emphasizes education in basic skills and on-the-job-training. Students are not typical undergraduates, but are more likely to be welfare mothers and the unemployed and undereducated poor. They are provided with an "action" curriculum and supervised by teacher-advocates who work to place the students in internships in human-service agencies and then press for their promotion. The curriculum/work experience is demanding, and many of the students prove to be better workers than their "traditional," professionally trained counterparts. Despite this, Grant and Riesman wonder about the school's claim to be a college; there is great emphasis on "student field experiences" but very little reading, almost none of the St. John's type. The authors conclude that the ideological basis and bias of the institution may provide the energy and vision that see faculty and students through the rigors of the program, but the single-mindedness of the ideological blueprint is also the ultimate deficiency of the program.

Apart from these three detailed studies of "telic reforms," Grant and Riesman cover a wide range of "meritocratic discontents and popular reforms" in a variety of institutions, and conclude with their own modest proposal for reform. I found their treatment of the popular reforms at New College of Sarasota and the two experimental public colleges of New Jersey, Stockton and Ramapo, to be less interesting than their treatment of the "telics"—but this is no

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doubt partly because the "telics" are more interesting in their extremeness than the "populars" are in their comparatively more cautious "visions" and reactions. Nevertheless, these less dramatic ventures are instructive case studies in the "dos" and "don'ts" of modified reform.

Grant and Riesman argue that few institutions remain unchanged from the 1960's: "Almost everywhere requirements have been relaxed, paths toward a degree made more multiple and open, and the gold standard of academic currency has been diluted by grade inflation." As an example of academic corruption, the authors cite the "pass/no record" grade at Santa Cruz, a "sanitized transcript" of a school that could not bring itself to say "no" to anything or anybody. Politics, and the corruptions the politicization of the 1960's brought, have had many consequences: The core curriculum has become a widespread object of derision; students have won more "autonomy" (here, I would say merely "voice"); requirements have been abolished; faculties have been encouraged to act like adolescents; and double standards have been institutionalized for black students.

Perhaps most important in the long run, the turbulence and institutional identity-crisis of the 1960's precipitated considerable animosity from many sectors of the public. As Grant and Riesman say, "Entering the political arena brought the universities many more political enemies than friends," and "the noose of support has been tightened." As a consequence, colleges now dream of finding an administrative "captain of erudition" (Veblen's phrase), who will find money and champion the faculty against the hostile forces of the local community, but otherwise leave the faculty alone. Another important consequence is the increased appetite for political power by faculty members, manifested in the drive to unionization and collective bargaining; apart from other problems (such as redefining what it means to be a teacher), this trend also leads to further "bureaucratization" and thereby inhibits creative reform.

Grant's and Riesman's "modest proposal" for reform in undergraduate education calls for a variation on the theme of the cluster colleges at Santa Cruz, "one of the genuine successes of the last decade." (This overall scheme at Santa Cruz should not be judged by its most bizarre element, Kresge.) The colleges that make up the cluster have different emphases and structures, ranging from the institutionalized narcissism of Kresge to the old-fashioned teas and tough curriculum at Crown. The authors praise Santa Cruz for offering "vibrant pluralism in the forms of intellectual, social, and aesthetic experience" and for rejecting the "over-optioned life," while presenting a set of coherent options superior to and more satisfying than the "isotope-like trajectories of individualized curricula or departmental/vocational specializations."

Grant and Riesman also praise Santa Cruz for the reduced deference students show to faculty, the atmosphere of lessened "pressure" and "competition." Compared to other institutions, Santa Cruz shows great attention to student interests. In fact, the faculty is

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absorbed with the students; scholars interested in research often leave out of sheer exhaustion from students' demands on their time. But the authors believe that faculty "burn-out" can be alleviated by using "grayer" teachers who have achieved some distinction in their fields and need not worry about their professional reputation, and who can thus devote themselves to student interests.

I disagree with a few of the authors' judgments, conclusions, and recommendations, though admittedly only to a degree. The authors urge the reader, when he is surveying the experiments of the last decade, to temper his hindsight with compassion and to remember the context and the times in which these experiments began. But even after some reflection, it is hard to excuse some of the excesses of the era. The Kresge experiment, for example, is inexcusable because it embodies not just wrong-headed utopianism but a total capitulation by professionals, many of them well-known scholars, to some of the shabbiest ideas of the times. It represents not only a caving-in to loud voices of protest and demands for reform, but also an acceptance of gratuitous and indefensible nonsense in the place of a defensible curriculum. Parents (and some of their children) have the not unreasonable expectation that those running colleges should know more about education than those who attend them and those who pay the bills. When the educators peddle moonshine, they not only become confused themselves, they cause confusion in others. And when those who are responsible for the education of the young abandon education, they not only are guilty of fraud and non-performance, they foul the nest for others. Such mindless innovation has helped create the public animosity that has been so costly to higher education.

The result is that many intelligent people today shrink from any plans for "experimental" and "innovative" curricula, unwilling to be taken in, or burned, a second time. People in secondary education can attest to the consequences of a decade of what Samuel McCracken has called "quackery in the classroom," which began when a "great idea" in a university passed to schools of education, and from there to secondary schools, where it still persists. These days the schools are being pressed to return to "basics," which, as Paul Gagnon has pointed out, may result in a very narrow and unlovely curriculum. Along with the "frills" that deserve to go, the arts and the humanities may also go. The humanities, especially, should be able to sue places like Kresge for libel.

To me, St. John's, for all its arrogance and "impracticality," still tends to look rather like a college. Vanishing literacy and widespread student ignorance of events and ideas before the era of *Grease* support the arguments of the founders and defenders of St. John's. There is still something appealing about exposing students to outstanding writing and thinking; as the authors point out, there is also courage in not yielding to, but overcoming, the aggrandizements of the "imperial self." At least St. John's looks as if it could be fixed with some tinkering—a few electives here, a bit of indivi-

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dual study there, and perhaps six months at the College of Human Services. What is needed most of all at St. John's is a more accurate version of Socrates and the teacher's (or tutor's) responsibility to teach. The idea that Socrates elicited opinions but did not offer them is simply incorrect, as anyone who reads Plato's dialogues will discover. Every beginning philosophy teacher who pushes the image of "Socrates the questioner" is rightly embarrassed by the attentive student who points out that Socrates not only asks the most questions, but gives the most answers. Socrates even *lectures* from time to time. The dedicated tutors at St. John's should tell the students what they know. In doing so, they can be confident that their opinions will not be irresistible to the young minds there.

In an effort to prevent a cranky response to these reforms, Grant and Riesman state that experimenting institutions have made larger claims and therefore may seem ridiculous in comparison to "more pedestrian institutions which see their work in unexalted terms and where the problems are pedantry and banality and boredom." This judgment is too quick and too severe on the non-experimenting institution. Such an institution may not be grist for the authors' mill, but it does not follow that it is either banal or boring. There are fine colleges and universities in this country that refuse to engage in exalted self-profession, that refuse to claim more for themselves than is appropriate, and this can be to their credit. Some institutions achieve the balance of intellectual coherence praised by the authors in their discussion of Santa Cruz.

This is the institutional analogue to the story of the prodigal son. Why is it that the prodigal son gets so much credit for leaving and then returning home, while his brother, who has the equanimity and character never to be tempted to leave their responsibilities, get none? A colleague of mine, the Dean of Arts and Sciences at North Carolina State University, wonders why it is that Harvard gets so much credit for returning to a core curriculum, while his institution gets none for having the sense, the character, and the courage never to have left it.

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Reality in One Lesson

ALAN REYNOLDS

THE marvelous audacity of the title *The Way the World Works** will attract some, repel others. Amazingly, it is appropriate. This actually is an attempt to explain political and economic events

*** *The Way the World Works*, by Jude Wanniski. Basic Books. 319 pp. $12.95.**

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throughout the ancient and modern world in terms of a manageable number of general principles. Even more remarkable, this heroic effort is frequently successful—illuminating many of the mysteries of history, from the decline of Rome to the stock market crash of 1929 and today's global stagflation.

The book is deceptively easy to read, which may cause those who associate economic wisdom with impenetrable prose mistakenly to interpret its clarity as a lack of depth. As his unsigned *Wall Street Journal* editorials attest, Wanniski is a master of illustration, and each piece of the political-economic model he propounds is carefully interwoven with folksy examples, then amply documented with rigorous historical evidence.

Wanniski's economic model is simply brilliant and brilliantly simple. The starting point is to examine the supply side of an economy —to ask what motivates people to add to the quantity and quality of marketed goods and services. The answer builds upon a broad definition of work as a complex combination of physical and intellectual effort. Most work is in the barter economy—housework, do-it-yourself projects, trading tasks with family or friends. Smith the carpenter and Jones the plumber will exchange services with each other in the marketplace only "when it is easier to trade their work for somebody else's in the public economy." Otherwise, Smith will fix his own sink and Jones his own kitchen cabinet, each thus depriving the other of a job.

There are enormous efficiencies in specialization and additional gains from using money to expand the scope of possible exchanges within, and even beyond, national boundaries. But entering the public economy to specialize makes the transaction visible and therefore subject to government taxes, tariffs, and regulations. When the government imposes too heavy a burden on transactions in the public economy, people drop back into the inefficient private barter economy (friends, "do-it-yourself," and casual labor for cash), or they substitute leisure for taxed income.

This brings us to the "wedge model," attributed to Professor Arthur Laffer of the University of Southern California, which explains how a variety of taxes and regulations form a wedge between what employers pay for workers and what employees ultimately receive in after-tax income. Reducing this wedge makes it cheaper for employers to offer jobs and more lucrative for employees to accept and retain jobs. A similar wedge between what business pays for capital and what suppliers of capital (investors) ultimately receive in after-tax income reduces savings, investment, and economic growth.

According to Wanniski, the practice of taxing additions to income at sharply increasing rates—the progressive income tax—has a particularly demoralizing effect on personal effort and specialization. "Workers now have less incentive to become skilled workers or foremen, foremen have less incentive to become salespeople, salesmen have less incentive to become managers, and managers less incentive to become entrepreneurs." This effect has been com-

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pounded by inflation, which pushes unreal increases in incomes into higher and higher marginal tax brackets, thus discouraging supply and producing the apparent paradox of "stagflation."

"The only way government can increase production," concludes Wanniski, "is by making work more attractive than non-work." The Soviet Union accomplishes this task with the least generous welfare, retirement, and unemployment benefits in the civilized world. They use the stick to replace the carrot. Western countries, however, have tended to forget the stick and tax the carrot with policies that discourage work and subsidize non-work, with the predictable result that we are getting less effort and more "leisure."

THE most famous illustration of the model, the "Laffer Curve," rests on the crucial distinction between tax *rates* and tax *revenues*: "There are always two tax rates that yield the same revenues." A zero rate yields zero revenue, and so does a 100-percent rate (because the taxed activity would cease). Between these extremes lies an optimal point "at which the electorate desires to be taxed." Raising tax rates beyond that point lowers both the public economy's output and the government's revenue. The optimal tax rate can be very high during war time, but high rates at other times will normally generate wholesale tax evasion and a reversion to inefficient, unspecialized barter.

A chapter on the Crash of 1929 meshes the theory with some truly original historical research. The stock market always reflects the best available information about the future course of the economy, Wanniski argues, and therefore could not have been grossly overpriced at the 1929 peak. The market's fall must instead have reflected a previously unexpected increase in the political cost of doing business (the "wedge").

Treasury Secretary Andrew Mellon emerges as the principal political hero of the book for slashing back the income-tax rates several times from 1921 through 1929 (rates ranged from 4 percent to 73 percent in 1920, 0.4 percent to 24 percent in 1929) while simultaneously running budget surpluses. The much-maligned Coolidge era provided five years of 3.5-percent unemployment and 0.5-percent annual inflation—a combination that is impossible in Keynesian theory (especially with budget surpluses), and certainly unmatched in Keynesian practice.

If the Coolidge tax cuts were such a successful application of Wanniski's model, what brought on the market's crash? By sifting through newspapers of the day, Wanniski demonstrates beyond reasonable doubt that the stock market crash of 1929 ensued because of the growing likelihood of passage of the Smoot-Hawley Tariff Act of 1930. A domestic tax is "a wedge between the trading of Jones and Smith. The tariff is a wedge between the trading of Jones, a national, and Schmidt, a foreigner. The effects on commerce are precisely the same."

To make matters worse, income taxes were increased again and again during the 1930's (ranging from 4 percent to 79 percent by

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1936), and became particularly punitive toward people worth high incomes by virtue of their ability to add value to enterprises. The politics of the day liked employment but hated employers, a situation that wasn't really improved until another of the book's heroes, President Kennedy, cut tariffs and slashed tax rates (from a 20-percent to 91-percent range to a more moderate 14-percent to 70-percent range), while simultaneously reducing Federal spending and borrowing.

Wanniski goes too far, however, in denying that the collapse of the banking system and the related destruction of a third of the U.S. money stock had any effect in prolonging the Great Depression. "If prices could have risen by one third," he says, "there would have been no need for the banking collapse." But it was the banking collapse that produced the falling prices, and it could have been prevented.

THOSE of us who have labored under the accusation of employing "19th-century economics" will enjoy Wanniski's clever uses of 18th-century, classical economics to browbeat the current intellectual fashions.

Marx is accused of a fixation on economic contraction, which requires "submerging individualism into collectivism, because it is the untrammeled individual who is viewed as driving the capitalist system toward overproduction, boom and bust." Each worker is supposed to work harder in Marxist economies simply because of the ideological promise that others will do the same.

Like the Marxist model, says Wanniski, the Keynesian model is primarily a rationale for redistributing income (sharing misery) during periods of economic decline. Keynesian theory rests uneasily on "bond illusion"—people's presumed failure to recognize that an increase in government debt must require higher taxes in the future to repay or pay interest on that debt. Deficit spending just replaces present taxes with future taxes, and people will not "work for bonds, under the illusion that they can be exchanged for real goods."

If Keynesians base their theory on "bond illusion," monetarists stand indicted for peddling "money illusion"—"the notion that people will work for 'money' as a form of wealth, whether or not there is anything that money can buy." Some monetarists do argue that an unanticipated inflation can briefly reduce unemployment (because prices rise faster than wages), but only until adjustments are made. Indeed, the "rational expectations" school of monetarism even goes further than Wanniski in denying illusion, since Wanniski remarks that "creditors suffer and debtors benefit by an unanticipated switch in coin by the government." If lenders never suffered even temporary money illusion, then interest rates would always be high enough to compensate for any loss of purchasing power.

The real problem, of course, is long-term contracts in a changing world. If employers agree to pay 10-percent annual wage increases for three years in the expectation of being able to raise prices by 7 percent a year, a lower than anticipated monetary inflation will

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toss them into a cost-price squeeze, requiring layoffs. Imperfect foresight isn't really a matter of illusion, as Wanniski suggests, any more than the stock market suffered illusion in 1929 before the news about tariffs changed so quickly.

In Wanniski's model, it would apparently make no difference if there were a 100-percent inflation one day and a 100-percent deflation the next, except insofar as it distorted the tax structure. All prices and wages not only adjust to changing money growth, but do so evenly and instantaneously. Expectations are not only rational, in the sense of incorporating each day's best information, but also perfectly correct in anticipating future policy shifts. This is a useful simplification for some purposes, notably in drawing attention to the real factors that ultimately determine long-run economic growth, but it is not sufficiently precise to erase even temporary links between money, spending, and production.

If there is a prime villain of the book, a Darth Vader, it must be Professor Nicholas Kaldor of Cambridge University. Kaldor has been a principal exponent of the notion that developing nations must impose draconian taxes in order to extract the "savings" to finance grandiose government "investments" (uneconomic steel mills and other monuments).

Wanniski traces the Kaldor theme back to mid-19th-century India, where British railroad builders plied their trade at the cost of an onerous debt burden on Indian taxpayers. Economic imperialism is thus nearly defined as "the exploitation of the underdeveloped world by pushing it beyond its capacity to develop, in the process burdening the masses of people in the Third World with indebtedness and taxes."

Wanniski's documentation here is devastating. We find that before recent tax cuts, taxpayers in stagnant Asian countries faced 65- to 75-percent tax rates on incomes of around $7,000. In the booming Ivory Coast, marginal rates stop at 37.5 percent above $20,000, while in the similar but sluggish economy of Ghana tax rates hit 75 percent at $12,500. Anyone can pick the most troubled economies out of an extensive list by simply looking at the steepest taxes.

Economics in the real world is rarely divorced from politics, and what links the two, according to Wanniski, is the electorate's understanding of economics, which is acquired from childhood through dealings with others. "The only way an economist can know something his fellow human beings do not . . . is if people themselves do not know why they produce, distribute, and consume." It is one thing, however, to demonstrate that people understand their own economic circumstances, and quite another to claim that the electorate possesses the sorts of analytical skills and economic information needed to make political actions conform to their shared interests. Because each vote carries little weight, voters have no incentive to be as well-informed about politically determined economic issues as they are about something that affects their interests directly (such as the choice of employment or stereo components).

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Some decisions nonetheless do have to be reached by political consensus: "When four people go out to dine, the wine selection requires a political decision because four tastes must be satisfied with one bottle." To solve such problems on a larger scale,

> the global electorate is seen pushing, at every opportunity, in the direction of systems capable of producing superior politicians. This political process has as its ultimate aim a solution to the basic economic problem that for all time has confronted the global electorate, which is the tension between income growth and income distribution. . . . No individual can possibly be as wise as the electorate, the consensus, in discerning the preferred tastes of all the individuals who compose the electorate. . . . [Every election] is the optimum reflection of the national or local interest, given the choices available to the electorate.

People know what they want, and cannot be induced to want something else, but that is not to say that politicians are not sometimes mistaken or misled about the electorate's desires. When politicians lose touch with the people, the electorate is forced to find ways outside the normal political process to communicate with the politicians: revolution, religion, nationalism, and even, at times, assassination.

Unfortunately, Wanniski fails here to differentiate adequately among kinds of political action, and is left therefore with a formulation that amounts to saying that what is not upheaval is contentment.

These strained simplifications of political life are best illustrated by Wanniski's curiously charitable view of the Soviet Union's "democratic experiment." Communist systems apparently have the support of their electorates, Wanniski says, "for if they did not we would expect to see more visible signs of internal dissension." But that is why such systems nationalize the means of dissent (newspapers, television, guns), so it is very difficult for outsiders—and even for other citizens—to see "visible signs" of dissension.

Wanniski's economic lessons appropriately concentrate on the political barriers to trade—tariffs and taxes—that diminish the market's efficiency in producing what is wanted. His analogy between political and economic markets would be greatly improved if it were likewise explicitly acknowledged that there are particularly formidable barriers to political "competition." These barriers make political decision making inherently less competitive and efficient than voluntary market transactions.

Still, the book offers quite a lot of anecdotal evidence that following the Laffer/Wanniski economic model is good politics—even given the great dissimilarities in traditions and expectations among people of different nations and cultures. Those who overtax the people eventually lose power, one way or another. In this sense, the political model may help to explain how the electorate pushes, albeit glacially, toward responsive government. For in the end, governments can't distribute goods and services that are not produced,

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or tax transactions and activities that do not take place. Production depends on the quantity and quality of work and capital, which, in turn, depend on the after-tax real rewards to productive effort and investment. When the creation and spending of money outrun production, you just get inflation. Government debt is not a source of real wealth. If *The Way the World Works* did nothing more than push a handful of political entrepreneurs toward such fundamental realities, as it already may have done, it would rank among the most influential books since the 1930's.

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The Decadence of Federalism

JAMES RING ADAMS

THE political doctrine of federalism has fallen on hard times. As a slogan, it lacks a constituency. As a theory, it lacks consistency. The word itself has become so debased that it has either been supplanted by the cumbersome phrase "intergovernmental relations" or misleadingly applied to programs that are really disguised forms of centralization, like "fiscal federalism."

Most of the current writing on federalism is correspondingly confused. The bulk of it, consisting of dreary treatises on revenue sharing, shows almost no awareness of the 2,400-year history of this political arrangement, let alone its evolution in 18th- and 19th-century America. In fact, one might not even notice the poverty of this field, were it not for the work of two brilliant and much mourned scholars, Martin Diamond and Herbert Storing. (In addition to the theoretical work of Diamond and Storing, we also owe a debt to the descriptive writings of Morton Grodzins and Daniel Elazar.) They showed their students how much could be learned from the American constitutional debates that shaped modern federalism. Yet the public understanding of the concept has become so muddied that it threatens to distort whatever of their ideas reach a broader audience.

This confusion inclines me to be harsher than I otherwise might be in judging a recent Twentieth Century Fund report by Peter Passell and Leonard Ross.* As a report, it really is quite presentable. The authors undertake to measure the federal system against the economist's benchmarks of equity and efficiency. Their credentials are as good as anybody's. Passell is a member of the editorial board of *The New York Times;* Ross, a peripatetic economist, who

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* ***State Policies and Federal Programs: Priorities and Restraints.*** **A Twentieth Century Fund Report, by Peter Passell and Leonard Ross. Praeger Publishers. 168 pp. $16.95.**

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hit the jackpot on "The $64,000 Question" (category: the stock market) when he was 11 years old. Their style is condensed and tautly reasoned, but it occasionally lacks clarity and even borders on the cryptic.

The authors focus on four areas—school finance, higher education, health care, and income support—in which the states share substantial responsibilities with the Federal government. They draw on the example of California, a state of exceptional interest to students of public policy. They single out points at which state policies might frustrate Federal intentions, or Federal regulations might dampen state experimentation. They also consider the impact of Federal policy on the competitive position of the states in relation to one another. These are important questions for our federal system, but until recently they have largely been overlooked in discussions of government policy.

The report also devotes some attention to the state programs themselves. Some of this material may seem parochial and dated. Yet the state government of California has been a remarkable source of innovation, across the political spectrum. Its experience in school finance, medical-cost control, and welfare administration should prove interesting to a national audience.

The chapter on school finance, for example, contains one of the best short dissections of the *Serrano* decision I have seen. Since this state supreme court case has inspired imitations across the country, this section of the book is still worth reading, even though the terms of the issue in California have been entirely changed by the passage of Proposition 13. Serrano, as we have all heard, sought equality in the state educational system by challenging the existing system's reliance on property-tax bases that varied widely from district to district. This challenge, Passell and Ross argue, is practically and theoretically incapable of meeting its goal. Since California property rolls also include commercial and industrial real estate, the wealth of a school district property base does not necessarily reflect the personal income of the resident homeowners. Furthermore, the attempt to raise the property-tax burden of the rich overlooked the extent to which they could use it to reduce their Federal income-tax burden. As a result, the bulk of the increased burden fell on low-income homeowners in "wealthy" districts. Passell and Ross conclude, "In the context of a complex tax system and an adaptive economy, thoroughgoing reform of only part of the tax structure may create as much inequity as it resolves."

These difficulties, they continue, would be compounded if the Federal government attempted to impose *Serrano*-type equalizations on a national scale. The central government might try to equalize spending *within* states, in which case relatively rich districts in poor states could be penalized, even though they were in absolute terms poorer than "poor" districts in rich states. Or, Washington might try to equalize spending *among* the states, through incentives that might perversely cause wealthy states to abandon their own internal equalization efforts.

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The authors' discussion of *Serrano* exhibits the best features of the book. The economic analysis cuts through ideological cant and produces a plausible picture of the way policies would really work. The four chapters on the specific policy areas merit close attention —and they do, after all, constitute 124 of the book's 168 pages.

UNFORTUNATELY, the authors harbor broader ambitions. They attempt to set their program studies in the context of an "overview" of the economics of federalism. The first two pages of this effort are promising in their acknowledgment that political and constitutional history, not economics, are the foundations of federalism. Yet the rest of the authors' "overview" is as deeply flawed as most other current studies of federalism. Passell and Ross seem to forget almost immediately that the division of labor between the Federal government and the states is not determined by efficiency or equity but by constitutional law. This fact should have caused them more embarrassment than it did.

For instance, when Passell and Ross outline the Nixon Administration's studies in 1972 on national school finance reform, they glide quickly over the reason that they were undertaken—the fear that the U.S. Supreme Court might issue its own *Serrano*-type decision. The studies were quickly dropped when the Court declared in the 1973 *Rodriguez* case that equality in school finance was not a Federal concern. Passell and Ross make the lame apology that Congress could still act on the issue, but this sounds rather like an excuse for salvaging in their book what otherwise would be a great deal of dated research.

The authors conclude that "current programs for health, education, and income security do not reflect a rational division of labor between state and Federal governments." My response has to be, so what? Throughout history, the constitutional arrangements based on habit and political compromise have generally been more satisfactory than those based on abstract reasoning. The fact that something has been done a certain way for several generations gives it a prestige and moral authority that economic logic lacks. Furthermore, the historical experience tends to expose false assumptions.

And the Passell-Ross "overview" is based on a whopper of a false assumption. Their first chapter declares a need for some drastic changes in federal structure—such as restrictions on personal mobility or greater centralization of public finance—on the premise that people migrate to states offering higher levels of public services. The most prominent example, in the book and in the public mind, is welfare. But it is not until page 117 that the authors finally admit in passing that "there is considerable disagreement about the actual incidence of migration based on benefits."

In fact, evidence suggests that, even for welfare, the migration argument is grossly exaggerated. A survey of the welfare rolls by the New York City Department of Social Services turned up very few recipients who started receiving benefits immediately after they arrived in town. Even in a period of great population turnover, two-

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thirds of the welfare recipients who were born out of town had been in New York at least two years before going on the welfare rolls. This survey gives a picture of an immigrant population that came to New York seeking work and fell back on the welfare system (or was corrupted by it) only after failing in its original quest.

As for other public benefits, such as medical care and university systems, the current demographic patterns would lead one to conclude that Americans prefer to migrate *from* states with high service levels and *to* states with low service levels. The growth of the Sunbelt is on everyone's lips, but even more striking is the example of New England. In the first half of this decade, while the population of Massachusetts grew at half the national rate and the population of New York State actually declined, the growth of New Hampshire more than doubled the national rate and far outpaced any Northeastern or North Central state. Yet New Hampshire is notorious for its low social spending. Per-capita outlays in Massachusetts are 1.7 times as great for education, 1.8 times as great for health and hospitals, and 2.7 times as great for public welfare.

The reason for this disparity, of course, is that high services require high tax burdens; high tax burdens stifle economic growth, whereas low burdens encourage it; and the work force goes where the jobs are.

This situation should revive interest in at least one justification for federalism, the "laboratory" argument, the one aspect of federal theory that interests Passell and Ross. (With their characteristic lack of historical sense, they call it the "classical vision of federalism," when, to my knowledge, it originated during the early 20th-century Progressive movement.) According to the "laboratory" argument, the states can serve as so many social experiments, testing the merits or defects of governmental policies before the nation as a whole becomes committed to them.

The Progressives advanced this thesis in defense of interventionist state laws threatened by a Supreme Court then committed to a national laissez-faire economy. Passell and Ross argue in much the same spirit. The states could be laboratories, they write, for experiments in controlling hospital costs or increasing work incentives in welfare. In short, they make the case for the liberal version of federalism.

But this argument also suits the advocates of limited government. As with New Hampshire, a number of states have chosen to make themselves laboratories for a policy of restricted services and low tax burdens. And *this* experiment appears to have been extraordinarily successful. The federal system can be credited with allowing a remarkable test of the conditions for economic health.

The results, of course, can hardly be pleasing to the Northeastern states, which have expanded government employment and activity far beyond their resources. They have been vociferously calling for Federal policies to neutralize the growth of the Sunbelt. One hears a somewhat distorted echo of these calls in the Passell-Ross "over-

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view." But the national government would best serve the national interest by turning a deaf ear. The alternative of the Sunbelt—or of New Hampshire—has given many businesses and hundreds of thousands of individuals an escape from the foolish policies of New York or Massachusetts. To appreciate the value of the federal system, consider an alternative in which, like Gibbon's description of the Roman empire, the entire continent was a "vast and dreary prison" of high taxation, and a person seeking a less fettered economic life would have no place to flee.

There are other, more elevated justifications for federalism, but a short review is not the place to discuss them. It will suffice to say that the great flexibility and diversity of this system goes far in mitigating the smothering uniformity of mass democracy and direct national administration. Federalism deserves a better press than it has been getting.

James Ring Adams, an editorial and feature writer on the editorial board of the Wall Street Journal, *writes on questions of state and local policies.*

The Welfare Brief

JOHN BISHOP

THE idea that government should guarantee every citizen a minimum level of cash income without strings attached has enjoyed some popularity for more than a decade. A great deal of research on the consequences of such a guarantee has been stimulated by this policy discussion. Two important findings of this research are that, if set at a reasonable level, such a guarantee *would* promote significant reductions in labor supply and *would not* stabilize marriages as has been claimed (and, if administered as a welfare program, it might destabilize them).

There is a need for an up-to-date, popularly written book that provides a balanced and thoughtful summary of the findings and policy implications of this research. Martin Anderson's *Welfare** could have been this book. It reviews most of the relevant studies and the conclusions it draws about the desirability of a guaranteed income are, in my view, correct. But Anderson has chosen to write a polemical lawyer's brief against the idea of a guaranteed income, or negative income tax (NIT), as it is more commonly called. It is a masterfully written brief. If the NIT component of the Carter Administration's welfare reform proposal had not already been dead when the book was published, the book would certainly have helped

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* ***Welfare: The Political Economy of Welfare Reform in the United States,*** **by Martin Anderson. Hoover Institution Press. 238 pp. $10.00.**

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kill it. Unfortunately, the rate at which briefs of this sort become out-of-date is very high.

The key element of all NIT (or guaranteed income) proposals is the extension of welfare coverage to include two-parent families. Under a NIT plan, families receive a welfare benefit that is negatively related to the amount of income they have from other sources and positively related to family size. If the family has absolutely no income, it receives a guarantee that, in most proposals, has been set at roughly two-thirds the poverty line. As a family raises its income by its own efforts, the welfare benefit payment is reduced. The amount of this reduction, the welfare-benefit-reduction rate, is generally around 50 percent. Such a plan simultaneously increases the family's income and reduces its wage rate. This almost inevitably reduces the amount of time family members spend working.

Realizing that NIT was unlikely to be enacted without first demonstrating that it would not cause large numbers of men to withdraw from the labor force, policy analysts within the Office of Economic Opportunity proposed that the idea be tested experimentally. Four such controlled experiments have been conducted in various locations: New Jersey and Pennsylvania; North Carolina and Iowa; Gary (Indiana); Seattle and Denver. The evidence from these experiments is now available. While a NIT plan does not cause men to withdraw completely from the labor force, their periods of unemployment tend to be longer, and there is a measurable decrease in their hours worked per week. A representative study using data from the largest of the experiments, the Seattle/Denver study, finds that husbands in families receiving payments reduced their labor supply by 6 to 7 percent when the negative tax rate on earnings was 50 percent, and by 11 or 12 percent when the negative tax rate was 70 percent. The wives in these families also reduced the amount of time spent working outside the home by approximately 22 percent when the tax rate was 50 percent, and 32 percent when the tax rate was 70 percent. Some consider these labor-supply reductions small. Relative to GNP, they are very small. For all the NIT plans that have been seriously considered, the earnings reduction is substantially less than 1 percent of GNP. They are large enough, however, that in the absence of an effective work requirement they will cause reductions in earnings equal to roughly *half* the additional cost of the program.

Most policy analysts in the field agree that these estimates may understate the long-run effect on work of a permanent national program. Budgetary considerations forced the experiments to run for shorter periods than would have been desirable and prevented the saturation of an entire community. If everyone in a community is eligible for a guaranteed income, rather than just a few, there may be changes in community mores and in the availability of part-time jobs that reinforce the original reduction in labor supply. Preliminary evidence also suggests that the response to a permanent program would be greater than the response to a temporary NIT such as that on which the experiments are based.

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Anderson gets into trouble when he tries to guesstimate how large these biases are and then add these guesstimates to the Stanford Research Institute estimates of labor-supply reductions cited above. The discussions of the "truncation," "nonrandom," and "welfare-effect" biases that he quotes refer to early analysis of the New Jersey experiment. He does not seem to realize that because of a larger, more representative sample and improved modes of analysis, the Seattle/Denver estimates he has chosen to use are free of the biases. His discussion of the other biases is mishandled as well.

The table summarizing his corrected estimates of labor-supply response is particularly misleading. The Seattle/Denver simulation used as a starting point is for a NIT program that has a 70-percent negative tax rate and a guarantee that is three-fourths the poverty line. It makes payments to only 6.5 percent of all families, those with incomes below the poverty line. Anderson's table and text say the population that will contract its labor supply is the 33 percent of all families with incomes under $10,000 in 1975. If he had chosen a program that phased out at $10,000 for his simulation, the program would have had a negative tax rate of 50 percent, and the husband's reduction in work effort (before bias guesstimates) would have been 6 percent rather than 12 percent. All bias guesstimates would have had to be reduced by half as well.

EVERYONE recognizes that there is a large degree of uncertainty involved in making predictions about the likely impact of a policy. As a result, it is customary for social scientists to attempt to place upper and lower boundary lines on their estimates and to discuss the sensitivity of their results to assumptions made along the way. Summarizing this kind of work for the layman, Anderson's strategy seems to be to "highlight the highest." Where a range of estimates is provided, it is invariably the higher area that is reported.

Anderson's treatment of a study by Greenberg and Kosters illustrates his approach. He bypasses "an intermediate set of estimates that we [Greenberg and Kosters] believe most closely approximated the actual response" and reports instead their upper-bound estimates:

> Even though they used a relatively low income guarantee of only $3,500 for a family of four, and a welfare tax rate of 75 percent, it was still estimated that working men with family responsibilities [who receive payments] would reduce the number of hours they worked by 29 percent . . . . A higher income guarantee of $5,000 or $6,000 a year, which would probably be necessary to make a guaranteed income politically feasible, would imply a substantially greater reduction in work effort.

Not content with quoting their upper bound as if it were their central result, he claims that the 29-percent figure is really a lower bound, because the guarantee (level of benefits if the family has no other source of income) is "only $3,500 for a family of four." An-

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derson does not seem to realize that he has neglected to include in the guarantee the $1,030 worth of food stamps that Greenberg and Kosters assume the family receives, and that the simulations are for 1966, a year in which wage and price levels were half what they are now. At current price levels an equivalent NIT would have a guarantee of $9,000.

For Anderson, convincing the reader always receives priority over informing him. Only studies that support the case being made are described; studies that come to a different conclusion are not even attacked, they are completely ignored. Anderson appears to feel no obligation to quote a scientist in a way that accurately reflects that scientist's position. Ironically, he risks losing the reader's credibility for no reason. There was no need to exaggerate the Greenberg/Kosters study. Their intermediate estimate was a 19-percent reduction, which is just as unacceptable as a 29-percent reduction. It implies that for every $100 of NIT, the husband reduces his earnings by $37. Add in the labor-supply reduction of wives and teenage children, and the total reduction in earnings on the part of the family is likely to be $60 per $100 in NIT benefits. A fair review of all the studies would have led the reader to the same inevitable conclusion: that a no-strings-attached guaranteed income will produce unacceptably large labor-supply reductions.

One would get the impression from Anderson's book that the welfare reform planners were either unaware of or chose not to believe that a no-strings-attached guarantee would produce a substantial labor-supply response. In fact, however, the HEW computer model used to design and "cost out" welfare-reform plans assumed there would be significant labor-supply reductions. Concern about the possibility of large labor-supply reductions contributed to President Carter's decision to propose a large jobs program and to recommend that these jobs be used as a method of supplementing an effective work test in the cash assistance program. The influence of research findings on the decision-making process is revealed by HEW Secretary Joseph Califano's response to a question about what was learned from the NIT experiments, "One of the things we have learned is that you must have a jobs program accompanying a cash-assistance program." The computer model predicts that by directly stimulating work and making possible for the first time an effective work test, the jobs program will roughly counterbalance the anti-work effects of the NIT component of the Administration's welfare-reform proposal.

A work test and jobs program are not, however, panaceas for all the ills of a NIT. Work tests may have the side effect of placing enormous amounts of discretion in the hands of social workers. They are not likely to reduce the stigma attached to receiving cash assistance. They cannot eliminate the tendency for NIT to reduce families' labor supply. They can only lessen it. Since we have not yet experimented with a work-tested NIT, we do not know how effective they are in preventing labor-supply reductions. Experimentation is now under way, so perhaps we will know in a few years.

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THE focus of Anderson's opposition to a NIT plan that places two-parent families on welfare is its effect on labor supply. There are at least two additional reasons for questioning the wisdom of such a policy: the effects on recipients' dignity and on their marriages. Anderson mentions these problems but gives only a one paragraph discussion to each.

Gallup polls find that even the presumed beneficiaries of a guaranteed income—low-income, two-parent families headed by able-bodied adults—do not favor it. A likely reason is that they view NIT as welfare, and welfare is for people who are unable to support themselves. They do not view themselves as being among "those" people. In the words of sociologist E. Wight Bakke, who studied families experiencing long periods of unemployment during the Depression:

> Every goal he seeks to reach as a normal worker recedes further from realization when he turns to relief. Until that moment he could in a measure realize that even without current earnings the efforts he made in the past in the role of a "producer," a "good provider," a "good father," were still contributing to the support of his family. But now he has made a public declaration of his failure, and no rationalization can quite cover up the fact that a "reliefer" is not among the roles his associates respect.

While the stigma attached to being on welfare has lessened, it has not disappeared. This is revealed by the surprisingly low application rates of our welfare programs. The Social Security Administration estimated in 1974 that half of the aged poor eligible for Supplemental Security Income fail to apply. Studies by R. D. Coe and by Maurice MacDonald have found that over three-fifths of the two-parent families eligible for food stamps fail to apply. Educational "outreach" efforts have not been able to increase participation significantly.

For almost a decade it has been claimed that instituting NIT will help keep families together. The evidence from the NIT experiments contradicts this prediction. In three of the four experiments the families that were eligible for NIT payments had higher rates of marital instability than the control families, instead of the lower rates theory had predicted.

In the Seattle/Denver experiment white families with children placed on NIT plans with guarantees at or below the poverty line were 76 percent more likely to split. Black families with children experienced a 68-percent increase in rates of marital dissolution. Split rates increased even when the experiment provided less to a separating wife than AFDC. Four complementary hypotheses have been proposed to explain these startling findings:

1. Husbands in the control group may fear that the welfare department will pursue them for child support. The experiment, in contrast, made no attempt to enforce child-support obligations.

2. Wives may feel that going on AFDC is stigmatizing but that receiving payments from the experiment is less so.

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3. Many couples in the control group were unaware of the fact that the wife would be eligible for AFDC if the marriage ended or were unaware of the levels of support. But in the experiments, a special effort was made to insure that people in the experimental families understood that benefits were available even if the marriage were to dissolve. Thus their greater awareness of just how generous the level of support was might have caused the increase in splits.

4. Finally, in most working-class families the husband is viewed as having the primary responsibility for supporting the family. Some experimental families may have viewed the receipt of an income-related transfer as a signal that the husband was a failure as breadwinner. If going on relief (i.e., receiving experimental benefits) is as damaging to one's pride as E. Wight Bakke implies, it may not be too surprising if some men choose to escape the situation altogether.

The finding of an increase in family splits in the experiments does not necessarily imply that a similar increase would occur in a national NIT. In the experiments, eligibility was determined and payments made by nonprofit corporations that did not have the force of law behind them. Government-administered welfare programs would presumably try to enforce child support obligations. In the experiments, families identified by a screening process as eligible were recruited into the program by an interviewer's personal visit. In a government-administered program a family would have to go to the welfare office and make a special application. The perceived stigma of being on welfare would keep most two-parent families from applying for aid. Thus while participating families might be disrupted by the information and stigma effects of the program, most low-income families would not participate. On the other hand, a permanent program that changed everyone's options simultaneously might have larger effects on marital stability than a temporary experiment affecting only a small and scattered group of families.

Future research may establish that a national, governmentally administered NIT will not have these effects. In the interim, however, it would seem to be the better part of wisdom to limit as much as possible the amount of contact two-parent families have with the welfare bureaucracy. Most poor two-parent families are large families with one member in the labor force working at a low wage rate. Twenty million people work in industries that pay less than enough to bring a family of five out of poverty. Working full time at the minimum wage in 1978 is not even sufficient to bring a three-person family out of poverty. Morgan Reynolds and Eugene Smolensky have found that families supported by low-wage workers nevertheless pay directly and indirectly over one-third of their income in taxes. The way to improve the lot of these families is to raise the wages and reduce the unemployment of these families' able-bodied members. This can be done by supplementing the wage rates of workers with family responsibilities when the wage rate is low by targeting public-service employment on the truly disadvantaged, and by subsidizing employers when they hire the dis-

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advantaged. This paycheck approach means the family will not be receiving charity, and in most cases will be unaware of the existence of the program.

ANDERSON'S vision of welfare reform is different. His "program of workable welfare reform" turns out to be doing what we do now, only more efficiently. The proposals he makes are all already embodied in law—work requirements, state and local as opposed to Federal responsibility, public enforcement of child-support obligations, and eliminating fraud and improving administrative efficiency. Anderson very adroitly avoids any controversy here: He does not say who should be subjected to a work requirement, what sanctions are to be taken if the work test is failed, and how, without a massive jobs program, a work test can be made effective when unemployment rates for the relevant groups range between 20 and 40 percent. Readers may read into his proposals whatever specifics they like.

Anderson's satisfaction with the current system may derive from the fact that in his view "the War on Poverty has been won." When the War on Poverty was declared in 1964, there were 36 million people living in families with money incomes below the Census Bureau's official poverty line. By 1976, the latest year for which there are data, the poverty count had dropped only modestly to 25 million. During this period government programs providing in-kind benefits—Medicaid, Medicare, food stamps, school lunches—have grown dramatically. If one adds these benefits to cash income, adjusts for undercounted income, and assumes that people living in the same household are sharing all expenses, the poverty count declines dramatically. Depending on which study you accept, there were in 1975 "only" 6.4 million (Morton Paglin), 13 million (Congressional Budget Office), or 17 million (Timothy Smeeding) poor people left.

Certainly a reduction in income poverty from 36 million to somewhere between 6 and 17 million is a victory. But this reduction in income poverty has been accomplished almost entirely by a massive expansion in the number of people on welfare and in expenditures on public assistance, Medicaid, and food stamps. Without these programs, nearly 26 million people would have been poor. We have not yet scored a victory over dependency, and reducing dependency is almost as important as reducing poverty.

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